

New Issue
Book-Entry Only

Moody's Rating: Aaa (Underlying Aa2)
Standard & Poor's Rating: AAA (Underlying AA)

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Legal and Tax Information" herein.

\$84,750,000

**THE CITY OF SEATTLE, WASHINGTON
WATER SYSTEM REVENUE BONDS, 2004**

DATED: Date of Delivery

DUE: September 1, as shown on page i

The Bonds will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede and Co. as bond owner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be paid semiannually on each March 1 and September 1, commencing March 1, 2005. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agency of the State of Washington (currently The Bank of New York in New York, New York), to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Transfer System" and in Appendix D.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City's Water System, to meet the Reserve Requirement for the Bonds and to pay the issuance costs of the Bonds.

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are special limited obligations of the City. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (subject to certain restrictions) are pledged for payment of all Parity Bonds, including the Bonds. This pledge is superior to any other liens or charges. See "Security for the Bonds."

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds.



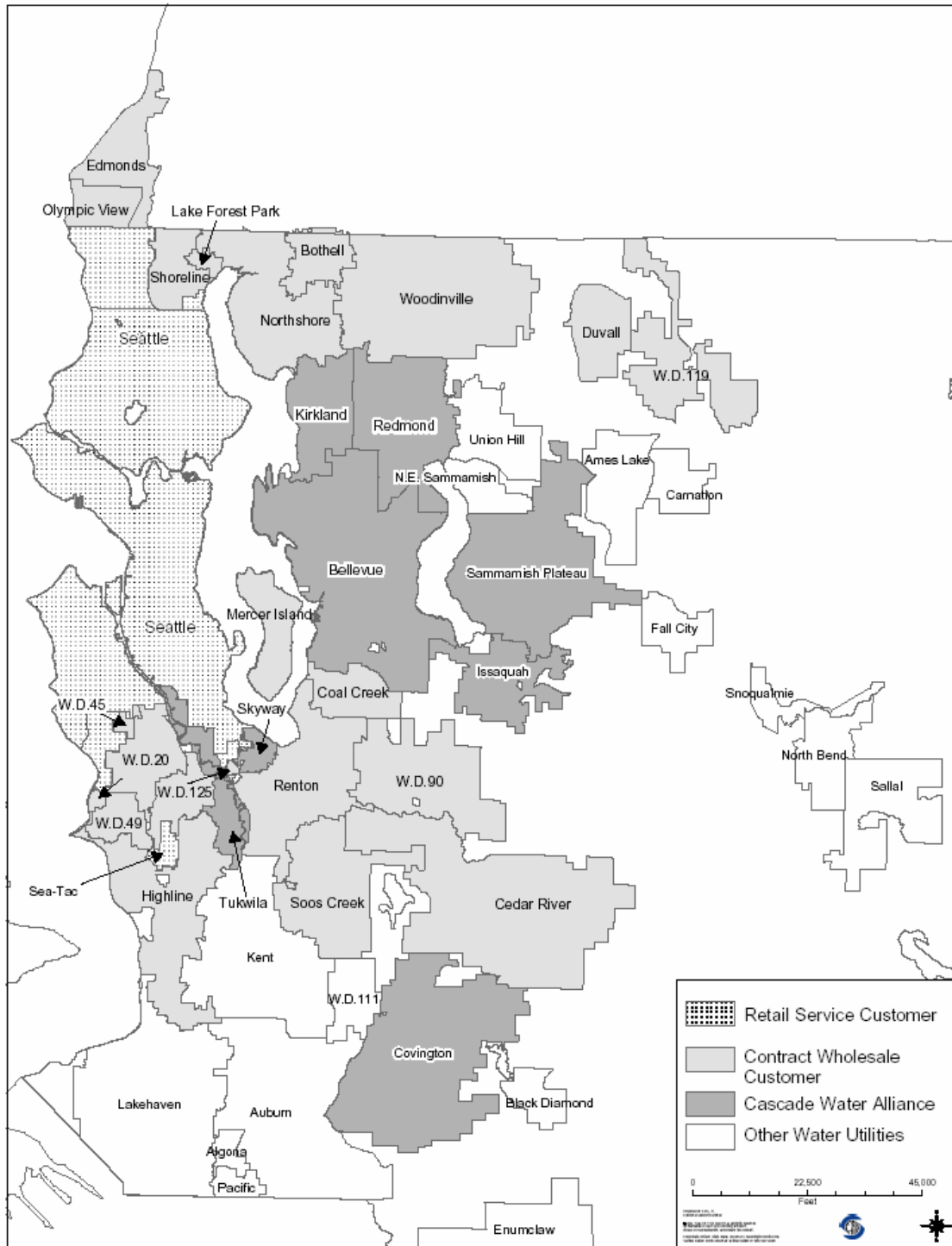
The Bonds do not constitute general obligations of the City, the State of Washington or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the ordinance authorizing the issuance of the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

MATURITY SCHEDULE ON PAGE I

The Bonds are offered for delivery by the Purchaser, when, as and if issued, subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about October 25, 2004.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

Dated: September 29, 2004



MATURITY SCHEDULE

\$84,750,000

THE CITY OF SEATTLE, WASHINGTON

WATER SYSTEM REVENUE BONDS, 2004

SERIAL BONDS

<u>Due September 1</u>	<u>Amounts</u>	<u>Interest Rates</u>	<u>Yields</u>	<u>CUSIP Numbers</u>
2005	\$ 1,930,000	3.000%	1.750%	812728KG7
2006	1,365,000	3.000	1.800	812728KH5
2007	1,410,000	4.000	2.030	812728KJ1
2008	1,465,000	5.000	2.330	812728KK8
2009	1,535,000	5.000	2.630	812728KL6
2010	1,615,000	5.000	2.880	812728KM4
2011	1,695,000	5.000	3.060	812728KN2
2012	1,780,000	5.000	3.220	812728KP7
2013	1,870,000	5.000	3.370	812728KQ5
2014	1,960,000	5.000	3.510	812728KR3
2015	2,060,000	5.000	3.580*	812728KS1
2016	2,165,000	5.000	3.760*	812728KT9
2017	2,270,000	5.000	3.860*	812728KU6
2018	2,385,000	5.000	3.950*	812728KV4
2019	2,505,000	5.000	4.040*	812728KW2
2020	2,630,000	5.000	4.130*	812728KX0
2021	2,760,000	5.000	4.170*	812728KY8
2022	2,900,000	5.000	4.260*	812728KZ5
2023	3,045,000	5.000	4.350*	812728LA9
2024	3,195,000	5.000	4.430*	812728LB7
2025	3,355,000	5.000	4.530*	812728LC5
2026	3,525,000	5.000	4.610*	812728LD3
2027	3,700,000	5.000	4.670*	812728LE1
2028	3,885,000	5.000	4.700*	812728LF8
2029	4,080,000	5.000	4.700*	812728LG6

TERM BOND

<u>Due September 1</u>	<u>Amounts</u>	<u>Interest Rates</u>	<u>Yields</u>	<u>CUSIP Number</u>
2034	\$ 23,665,000	5.000%	4.740%*	812728LH4

* Priced to the September 1, 2014, par call date.

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THE CITY OF SEATTLE
CITY OFFICIALS AND CONSULTANTS

MAYOR AND COUNCIL

Greg Nickels	Mayor
Jan Drago	President, City Council
Jim Compton	Council Member
Richard Conlin	Council Member
David Della	Council Member
Jean Godden	Council Member
Nick Licata	Council Member
Richard McIver	Council Member
Tom Rasmussen	Council Member
Peter Steinbrueck	Council Member

CITY ADMINISTRATION

Dwight D. Dively	Director of Finance
Thomas A. Carr	City Attorney

SEATTLE PUBLIC UTILITIES

Chuck Clarke	Director
Nick Pealy	Deputy Director for Finance and Administration
Sharon White	Deputy Director for Customer Service
Nancy Ahern	Deputy Director for Resource Planning
Thomas J. Tanner	Deputy Director for Engineering Services
Scott Haskins	Deputy Director for Field Operations

FINANCIAL ADVISOR

Seattle-Northwest Securities Corporation
Seattle, Washington

BOND COUNSEL

Foster Pepper & Shefelman PLLC
Seattle, Washington

No dealer, broker, salesperson, or any other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no material change in the affairs of the City since the date of this Official Statement.

The information set forth herein has been obtained from the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The City makes no representation regarding the accuracy or completeness of the information provided in Appendix D—"Book-Entry Transfer System," which has been furnished by DTC, or in "Other Bond Information—Bond Insurance" and Appendix F—Debt Service Reserve Fund Surety Bond and Appendix G—Municipal Bond Insurance Policy Specimen, provided by MBLA Insurance Corporation.

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OFFICIAL STATEMENT

\$84,750,000

THE CITY OF SEATTLE, WASHINGTON WATER SYSTEM REVENUE BONDS, 2004

This Official Statement, which includes the cover page and the appendices, contains certain information concerning The City of Seattle (the “City” or “Seattle”), the City’s Water System Revenue Bonds, 2004 (the “Bonds”), Seattle Public Utilities (“SPU”), and the City’s water system, referred to in the ordinance authorizing the issuance of the Bonds as the “Municipal Water System” (the “Water System”), in connection with the offering and sale of the Bonds.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the Water System, to meet the Reserve Requirement for the Bonds and to pay the issuance costs of the Bonds. The Bonds are to be issued pursuant to chapter 35.92 Revised Code of Washington (“RCW”), the Seattle City Charter, Ordinance 121587, passed by the City Council on September 20, 2004 (the “Ordinance”), and Resolution 30710, adopted on September 29, 2004 (the “Resolution”).

Appendix A to this Official Statement is a copy of the Ordinance. Appendix B is the form of approving legal opinion of Foster Pepper & Shefelman PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the Water System’s audited 2003 financial statements. Appendix D is a description of DTC procedures with respect to book-entry bonds. Appendix E provides demographic and economic information. Appendix F provides information on the Debt Service Reserve Fund Surety Bond and Appendix G is the municipal bond insurance policy specimen. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the Ordinance and in the Resolution.

DESCRIPTION OF THE BONDS

Registration and Denomination

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede and Co. as registered owner and nominee for the Depository Trust Company (“DTC”), New York, New York. DTC will act as initial securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased.

The Bonds will be dated the Date of Delivery. The Bonds will mature on the dates and in the amounts and will bear interest (payable semiannually on each March 1 and September 1, beginning March 1, 2005) at the rates set forth on the cover of this Official Statement. Interest on the Bonds is to be computed on the basis of a 360-day year consisting of twelve 30-day months. The principal of and interest on the Bonds are payable by the City’s Bond Registrar, currently the fiscal agency of the State of Washington (currently The Bank of New York in New York, New York) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under “Description of the Bonds—Book-Entry Transfer System” and Appendix D.

Redemption of Bonds

Optional Redemption. The Bonds maturing on or before September 1, 2014, are not subject to redemption prior to maturity. The Bonds maturing on or after September 1, 2015, are subject to redemption prior to maturity at the option of the City on and after September 1, 2014, as a whole or in part at any time (maturities to be selected by the City, and randomly within a maturity in such manner as the Bond Registrar may determine and, so long as the Bonds are held in book-entry form, in accordance with the procedures established by the securities depository) at a price of par plus accrued interest to the date of redemption.

Mandatory Redemption. If not previously redeemed as described above, the Term Bond will be called for redemption randomly (or in such other manner as the Bond Registrar shall determine) at a price of par, plus accrued interest on the date of redemption, on September 1 in the years and amounts as follows:

2034 TERM BOND	
<u>Years</u>	<u>Amounts</u>
2030	\$4,285,000
2031	4,495,000
2032	4,720,000
2033	4,960,000
2034*	5,205,000

* Final maturity

If the City redeems Term Bonds under the optional redemption provisions described above or purchases Term Bonds in the open market as described below, the par amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited against the remaining scheduled mandatory redemption requirements for those Term Bonds in a manner to be determined by the City or, if no such determination is made, on a *pro rata* basis.

Notice of Redemption. Notice of any intended redemption will be given not less than 30 nor more than 60 days prior to the redemption date by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as the Bonds are held in book-entry form, notices will follow procedures established by the securities depository. See "Description of the Bonds—Book-Entry Transfer System."

No Acceleration of the Bonds

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Open Market Purchase

The City reserves the right to purchase any of the Bonds on the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede and Co., as nominee for DTC. See Appendix D for additional information. *As indicated therein, certain information in Appendix D has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC or if the City determines that a continuation of the book-entry transfer system is not in the best interest of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names such Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month next preceding the interest payment date or, at the request of the owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds will be transferable as provided in the Ordinance.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the “Defeased Bonds”). If sufficient money and/or Government Obligations, taking into account known earned income from the investment thereof, are set aside in a special fund pledged to the redemption, retirement or defeasance of the Defeased Bonds (the “Trust Account”), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Ordinance and in the revenues and the funds and accounts pledged to the payment of the Defeased Bonds will cease and become void. Such owners thereafter will receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. See Appendix A—Ordinance—Section 29.

USE OF PROCEEDS

The proceeds of the Bonds will provide funds (i) for certain capital improvements and additions to, and conservation programs for, the Water System (the “Plan of Additions”), (ii) to meet the Reserve Requirement for the Bonds and (iii) to pay the issuance costs of the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds will be applied as follows:

SOURCES OF FUNDS

Par Amount of Bonds	\$ 84,750,000
Net Original Issue Premium	<u>4,406,595</u>
Total Sources of Funds	<u>\$ 89,156,595</u>

USES OF FUNDS

Project Fund Deposit	\$ 88,603,470
Costs of Issuance*	<u>553,125</u>
Total Uses of Funds	<u>\$ 89,156,595</u>

* Includes Bond Insurance Premium (to be paid by the Purchaser of the Bonds), Reserve Insurance, Issuance Expenses, and Underwriter’s Discount, etc.

SECURITY FOR THE BONDS

Pledge of Net Revenue

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code). This pledge constitutes a lien and charge upon the Net Revenue on a parity with that of other Parity Bonds and superior to any other liens or charges. See Appendix A—Ordinance—Section 20. The City has reserved the right to combine the Water System, including its funds and accounts, with other City utility systems, funds and accounts. See “Combined Utility Systems” below.

The Bonds do not constitute general obligations of the City, the State of Washington (the “State”) or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

The Water Revenue Bond Account (the “Bond Account”) has been created in the Water Fund for the sole purpose of paying the principal of and interest on all Parity Bonds, including the Bonds. The City has agreed to pay into the Bond Account on or prior to the respective dates on which principal and interest are payable, all utility local improvement district (“ULID”) assessments on their collection (except for ULID assessments deposited in a construction account) and certain amounts from the Net Revenue of the Water System sufficient to pay such principal and interest when due. See Appendix A—Ordinance—Section 16.

Reserve Subaccount

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. So long as any Parity Bonds remain outstanding, the City will maintain the Reserve Subaccount at the lesser of Maximum Annual Debt Service or 125 percent of Average Annual Debt Service on the Parity Bonds (the “Reserve Requirement”). Under the Ordinance, the City must fund the increase in the Reserve Requirement due to the issuance of the Bonds from (i) Bond proceeds, (ii) Net Revenue in five annual installments or (iii) Reserve Insurance. The City has satisfied the Reserve Requirement upon the issuance of the Bonds by purchasing Reserve Insurance from MBIA Insurance Corporation. See Appendix A—Ordinance—Section 16, and Appendix F—Debt Service Reserve Fund Surety Bond.

Outstanding Bonds

Outstanding Parity Bonds. The 1997 Bonds, the 1998 Bonds, the 1999A Bonds, the 1999B Bonds, the 2001 Bonds, and the 2003 Bonds issued by the City and secured by revenues of the Water System are collectively referred to herein as the “Outstanding Parity Bonds”. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the “Parity Bonds.” The following table provides a summary of the Outstanding Parity Bonds.

OUTSTANDING PARITY BONDS
(AS OF SEPTEMBER 1, 2004)

Bond Description	Authorizing Ordinance	Original Par Amount	Outstanding Principal on 09/01/2004
Water System Revenue Bonds, 1997	118512	\$ 53,000,000	\$ 45,805,000
Water System Revenue Bonds, 1998	118973	\$ 80,000,000	\$ 72,805,000
Water System Revenue Bonds, 1999	119457	\$ 100,000,000	\$ 91,480,000
Water System Revenue Bonds, 1999B	119649	\$ 110,000,000	\$ 102,640,000
Water System Revenue Bonds, 2001	120547	\$ 52,525,000	\$ 52,525,000
Water System Revenue and Refunding Bonds, 2003	121094	\$ 271,320,000	\$ 244,160,000
Total		\$ 666,845,000	\$ 609,415,000

Subordinate Lien Bonds. The City currently has outstanding the following variable rate bonds secured by Water System revenues (the “Subordinate Lien Bonds”).

OUTSTANDING SUBORDINATE LIEN BONDS
(AS OF SEPTEMBER 1, 2004)

Bond Description	Authorizing Ordinance	Original Par Amount	Outstanding Principal on 09/01/04
Water System Adjustable Rate Revenue Bonds, 1995	117689	\$ 45,000,000	\$ 39,500,000
Water System Adjustable Rate Revenue Bonds, 2002A	120548	\$ 32,500,000	\$ 31,300,000
Water System Adjustable Rate Revenue Bonds, 2002B	120548	\$ 32,500,000	\$ 32,500,000
Total		\$ 110,000,000	\$ 103,300,000

The City has reserved the right to convert the Subordinate Lien Bonds to Parity Bonds, at its discretion, upon satisfaction of the conditions for the issuance of Future Parity Bonds under the ordinances authorizing the Parity Bonds. See “Additional Obligations—Future Subordinate Lien Bonds.”

Additional Obligations

Future Parity Bonds. Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Ordinance. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds:

- (i) a certificate of the Director of Finance showing that during any 12 consecutive months out of the preceding 24 months Adjusted Net Revenue was at least equal to 1.25 times the Adjusted Annual Debt Service (the “Coverage Requirement”) for all Parity Bonds plus the Future Parity Bonds to be issued, or
- (ii) a certificate of the Director of Finance and the Director of SPU stating that, in their opinion, the Adjusted Net Revenue (taking into account certain permitted revenue adjustments) will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on the Future Parity Bonds to be issued is capitalized or, if no interest is capitalized, the year in which the Future Parity Bonds are issued, or (b) the date on which

substantially all the facilities financed with those Future Parity Bonds are expected to commence operations.

Future Subordinate Lien Bonds. In the Ordinance, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds. See Appendix A—Ordinance—Section 23.

Parity Payment Agreements. The City may enter into Parity Payment Agreements secured by a pledge and lien on Net Revenue on a parity with the Parity Bonds, subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Ordinance—Section 23.

Contract Resource Obligations. The City may enter into Contract Resource Obligations to acquire water supply, transmission or other commodity or service from facilities to be constructed. The City may determine that all payments under those Contract Resource Obligations (including payments prior to the time such supply or service is being provided or during suspension or after termination of supply or service) will be an Operation and Maintenance Expense, upon compliance with certain requirements of the Ordinance. See Appendix A—Ordinance—Section 26.

Rate Covenant

The City has covenanted to establish, maintain and collect rates and charges for water service which will produce Adjusted Net Revenue of the Water System in each fiscal year at least equal to 1.25 times the Adjusted Annual Debt Service on all Parity Bonds for that year (the “Coverage Requirement”). See Appendix A—Ordinance—Section 1 for definitions of “Adjusted Net Revenue” and “Adjusted Annual Debt Service,” and Appendix A—Ordinance—Section 21(b).

Rate Stabilization Account. The City may deposit Gross Revenue and any other money received by the Water System into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the Water System. No deposit of Gross Revenue will be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. See “Water System—Financial Policies” and Appendix A—Ordinance—Section 18.

Other Covenants

In the Ordinance the City has entered into other covenants, including those with respect to maintenance of the Water System, sale of the Water System and preservation of tax exemption for interest on the Bonds. See Appendix A—Ordinance—Section 21.

Separate Utility Systems

The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of the separate system will not be included in Gross Revenue, and may be pledged to the payment of revenue obligations issued for the purposes of the separate system. Neither the Gross Revenue nor the Net Revenue of the Water System will be pledged to the payment of any obligations of the separate system, except as a Contract Resource Obligation or on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—Ordinance—Section 25.

Combined Utility Systems

The City has reserved the right to combine the Water System with other City utility systems, including their funds and accounts. See the definition of “Municipal Water System” in Appendix A—Ordinance—Section 1. Also see “Seattle Public Utilities—Administrative Structure” for a description of existing City utilities that have reserved the right to combine with other City utilities.

DEBT SERVICE REQUIREMENTS

The following table shows the debt service to be paid from the Net Revenue of the Water System.

DEBT SERVICE REQUIREMENTS

Date	Subordinate Lien		The Bonds										Total							
	Debt Service*		1997 Bonds					2001 Bonds					2003 Bonds		Interest		Parity Bonds		Total	
			1997 Bonds	1998 Bonds	1999A Bonds	1999B Bonds	2001 Bonds	2003 Bonds	Principal	Interest	Debt Service	Debt Service								
2004	\$	0	\$	0	\$	0	\$	0	\$	1,298,794	\$	21,623,376	0	\$	0	\$	1,298,794	\$	1,298,794	
2005		1,741,667		3,708,940		5,258,750		6,651,754		7,962,850		3,647,588		1,930,000		3,533,875		54,317,133		56,058,800
2006		5,356,000		3,701,590		5,253,750		6,646,954		7,955,350		3,635,338		1,365,000		4,099,600		53,219,558		58,575,558
2007		5,406,000		3,696,284		5,249,750		6,645,929		7,953,100		3,626,513		1,410,000		4,058,650		50,192,002		55,598,002
2008		5,354,000		3,692,753		5,246,500		6,643,649		7,950,600		3,615,888		1,465,000		4,002,250		50,434,040		55,788,040
2009		5,400,000		3,685,728		5,243,750		6,633,413		7,947,600		3,605,550		1,535,000		3,929,000		50,397,191		55,797,191
2010		5,344,000		3,680,209		5,241,250		6,620,563		7,936,475		3,598,075		1,615,000		3,852,250		50,370,647		55,714,647
2011		5,386,000		3,675,928		5,243,750		6,606,806		7,928,475		3,588,225		1,695,000		3,771,500		50,339,985		55,725,985
2012		5,424,000		3,672,228		5,245,750		6,596,750		7,923,050		3,581,000		1,780,000		3,686,750		50,317,654		55,741,654
2013		5,360,000		3,672,578		5,247,000		6,585,000		7,912,450		3,572,750		1,870,000		3,597,750		50,298,654		55,658,654
2014		5,394,000		3,666,258		5,252,250		6,581,031		7,902,938		3,566,500		1,960,000		3,504,250		50,283,752		55,677,752
2015		5,424,000		3,659,898		5,261,000		6,574,319		7,898,938		3,557,000		2,060,000		3,406,250		50,277,130		55,701,130
2016		5,352,000		3,658,218		5,267,750		6,564,600		7,889,588		3,554,250		2,165,000		3,303,250		50,265,381		55,617,381
2017		5,378,000		3,655,658		5,277,250		6,561,350		7,884,600		3,547,750		2,270,000		3,195,000		50,222,084		55,600,084
2018		5,400,000		3,651,938		5,284,000		6,558,913		7,883,113		3,547,500		2,385,000		3,081,500		50,205,439		55,605,439
2019		5,418,000		3,646,219		5,297,750		6,556,763		7,879,263		3,543,000		2,505,000		2,962,250		50,234,970		55,652,970
2020		5,432,000		3,643,750		5,307,750		6,559,244		7,877,475		3,544,250		2,630,000		2,837,000		50,339,945		55,771,945
2021		5,344,000		3,643,969		5,318,750		6,560,700		7,876,888		3,545,750		2,760,000		2,705,500		48,607,532		53,951,532
2022		5,354,000		3,641,313		5,330,250		6,560,606		7,876,638		3,547,250		2,900,000		2,567,500		48,720,032		54,074,032
2023		5,360,000		3,640,500		5,341,750		6,558,438		7,875,863		3,543,500		3,045,000		2,422,500		48,490,026		53,850,026
2024		5,362,000		3,640,969		5,352,750		6,563,406		7,878,700		3,549,500		3,195,000		2,270,250		39,224,551		44,586,551
2025		5,360,000		3,637,156		5,367,750		6,561,503		7,870,100		3,549,500		3,355,000		2,110,500		39,225,079		44,585,079
2026		5,354,000		3,638,781		5,381,000		6,556,897		7,862,000		3,553,500		3,525,000		1,942,750		39,234,073		44,588,073
2027		2,600,000		0		5,397,000		6,556,703		7,853,200		3,556,000		3,700,000		1,766,500		35,601,173		38,201,173
2028		2,600,000		0		0		6,550,116		7,842,500		3,556,750		3,885,000		1,581,500		30,190,156		32,790,156
2029		2,600,000		0		0		6,546,328		7,838,700		3,560,500		4,080,000		1,387,250		30,183,778		32,783,778
2030		2,600,000		0		0		0		0		3,566,750		4,285,000		1,183,250		15,805,750		18,405,750
2031		2,600,000		0		0		0		0		3,570,000		4,495,000		969,000		15,806,250		18,406,250
2032		67,600,000		0		0		0		0		0		4,720,000		744,250		12,239,000		79,839,000
2033		0		0		0		0		0		0		4,960,000		508,250		12,240,750		12,240,750
2034		0		0		0		0		0		0		5,205,000		260,250		0		0
	\$	195,303,667	\$	80,610,859	\$	121,667,250	\$	164,601,732	\$	197,460,450	\$	97,728,971	\$	407,988,120	\$	79,240,375	\$	1,228,582,507	\$	1,423,886,174

* Variable rate; debt service payments may change.

SEATTLE PUBLIC UTILITIES

Administrative Structure

Seattle's water, drainage, wastewater, and solid waste utility services were consolidated administratively into a single entity known as Seattle Public Utilities ("SPU") in 1997. Within SPU, there are four separate funds: the Water Fund, the Drainage and Wastewater Fund, the Solid Waste Fund, and the Engineering Services Fund. As described herein under "Security for the Bonds—Combined Utility Systems," the City has reserved the right to combine the Water System, including the Water Fund with other City utility systems, funds and accounts. The City also has reserved the right to combine the Solid Waste System (including the Solid Waste Fund) and, upon the maturity, redemption or defeasance of the outstanding Drainage and Wastewater Revenue Bonds, 1995, the Drainage and Wastewater System (including the Drainage and Wastewater Fund) with other City utility systems, funds and accounts.

Management

SPU consists of the Director's Office and five Executive Branches: the Finance and Administration Branch, the Customer Service Branch, the Resource Planning Branch, the Engineering Services Branch, and the Field Operations Branch. The Director administers SPU in accordance with policies established by the Mayor of Seattle (the "Mayor") and the City Council. Brief biographies of the members of SPU's executive management team follow.

Chuck Clarke, Director. Mr. Clarke became Director of SPU in 2002. Prior to this appointment, he served as deputy mayor for the City, responsible for issues and projects dealing with utilities, transportation and the environment. He is the former Regional Administrator for the Environmental Protection Agency. He holds a bachelor's degree in biology and a master's degree in business administration from Pacific Lutheran University.

Nick Pealy, Deputy Director for Finance and Administration. Mr. Pealy joined SPU in 1997 as Director of Finance and was promoted to his current position in 2001. He has worked for the City since 1987 as an economist for the City Council and as a rates supervisor and finance director for the Solid Waste Utility. He holds a bachelor's degree in political science and mathematics from Whitman College and a master's degree in economics from the University of Washington.

Sharon White, Deputy Director for Customer Service. Ms. White was appointed to this position in 2003. She has held leadership positions with SPU since its inception in 1997, and served as SPU's Utility Services Director prior to her promotion to Deputy Director. During her 18 years of City service, she has gained experience in program analysis, financial management, policy development, capital project management, and human resource management. She holds a bachelor's degree in sociology from the University of Washington and has attended the Cascade Public Executive Program at the University of Washington's Evans School of Public Affairs.

Nancy Ahern, Deputy Director for Resource Planning. Ms. Ahern was appointed to this position in 2001. Prior to the appointment she was manager of the Water and Land Resources Division for King County. Ms. Ahern holds a bachelor's degree in biology and environmental studies from Principia College and a Ph. D. degree in natural resource management from the University of Michigan.

Thomas J. Tanner, Deputy Director for Engineering Services. Mr. Tanner was appointed to this position in 1998, and oversees engineering, design, project management, and construction management for SPU, as well as construction contractor management functions for Seattle City Light and the Seattle Transportation Department. Mr. Tanner holds a bachelor's degree in civil engineering from California State University and a master's degree in public works management from the University of Pittsburgh. He is a graduate of Northwestern University's Executive Management Program and is a registered professional civil engineer.

Scott Haskins, Deputy Director for Field Operations. Mr. Haskins was appointed to this position in 2001. Prior to this appointment he had served as Resource Management Branch Executive and as the Deputy Superintendent of the Water Department (now the Water System). He is the past president of the Seattle

Management Association and Chair of the West Coast Water Utilities Benchmarking Group. He holds a bachelor's degree in political science and a master's degree in public administration from the University of Washington.

Employee Relations and Employment Retirement System

Currently SPU has approximately 1,300 employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System." Approximately 82 percent of SPU employees are represented by 12 unions. The labor agreements are effective through December 31, 2004; however, negotiations for new agreements are underway. SPU believes that labor relations are satisfactory. See "The City of Seattle—Labor Relations."

WATER SYSTEM

General

The Water System was established in 1890. It currently includes two watershed sources of supply east of the City and a small aquifer south of the City, as well as approximately 156 miles of supply mains and 460 million gallons ("MG") of storage capacity in transmission and distribution reservoirs. The Water System's service area includes Seattle and portions of unincorporated King County served directly (the "direct service area"), and also areas served by 26 suburban water districts, municipalities and non-profit water associations (the "Purveyors") in the County. The population of the Water System's direct service area is approximately 630,000, and the population of the area indirectly served through the Purveyors is approximately 710,000. The map on the inside front cover shows the service area and the locations of the Purveyors. Summary statistics for the Water System follow.

WATER SYSTEM OPERATING STATISTICS

	1999	2000	2001	2002	2003
Population Served					
Retail	613,274	618,323	621,467	624,610	627,753
Wholesale	689,826	697,057	701,481	705,904	710,326
Total Population Served	1,303,100	1,315,380	1,322,948	1,330,514	1,338,079
Water Sales Revenues (\$000) ⁽¹⁾					
Retail ⁽²⁾	58,148	71,060	72,891	80,846	92,232
Wholesale	27,114	33,121	30,936	35,788	41,106
Total Water Sales Revenues	85,262	104,181	103,827	116,634	133,338
Billed Water Consumption (MG) ⁽³⁾					
Retail	24,680	25,119	22,683	22,945	22,756
Wholesale	24,053	24,305	22,229	23,298	24,938
Total Billed Water Use	48,733	49,424	44,912	46,243	47,694
Operating Costs per MG (\$) ⁽⁴⁾	1,516	1,484	1,923	1,965	2,054
Gallons Used per Day per Capita	102	103	93	95	98
Retail Meters in Use	176,513	177,162	178,122	179,268	179,880
Number of New Retail Meters	625	625	960	1,146	612

- (1) Revenues represent payments from customers for service provided at published rates in each year. Revenues shown are not net of transfers to the Rate Stabilization Account.
- (2) Increases in retail revenues have come entirely from rate increases and fluctuations in retail customer use. There has been no change in the geographic area served nor any appreciable change in the number or composition of customers. Retail consumption has been essentially unchanged from 2001 through 2003.
- (3) Variations in billed water use are associated with year-to-year variations in temperature and precipitation in the summer irrigation period and, in 2001, an appeal to customers to limit water use due to drought conditions. There were no customers who entered or left the system.
- (4) The increase in per unit operating costs in 2001 is primarily due to increases in operating costs and secondarily to a decline in water usage. Operating costs increased in 2001 in part because it was the first full year of operations of the Tolt Filtration Plant and the first full year of implementation of the Habitat Conservation Plan for the Cedar River Watershed.

Source: Seattle Public Utilities

Comprehensive Planning

The Seattle Comprehensive Water System Plan (the "Water Plan") is the 20-year comprehensive plan for the Water System. The most recent Water Plan was approved by the State Department of Health ("DOH") in 2001. The Water Plan provides guidance for planning and operating the Water System, and includes objectives for the next six years in the areas of water quality, maintenance and rehabilitation, water conservation, and water supply.

Water Supply

The Water System's two surface water supply diversions are located on the Cedar River and on the South Fork of the Tolt River, each approximately 25 miles east of Seattle. The watershed areas upstream of the water supply intakes on these two rivers consist of approximately 104,000 acres of forest land in the Cascade Mountains of western Washington. Rainfall in the watersheds averages in excess of 100 inches annually. The snow pack at higher elevations averages five feet per year. Raw water storage capacity is 84,000 acre feet in the Cedar River Watershed and 56,000 acre feet in the Tolt River Watershed.

The City has diverted water from the Cedar River for use by the Water System since 1902. The City acquired this right by purchase, riparian right, appropriation, and other applicable laws. This claim of water rights, its relationship to instream flow requirements and the effect of the City's diversion dam in blocking passage of anadromous fish all have been the subject of intermittent discussions among the City, the State and the Muckleshoot Indian Tribe and more recently have been included in the Cedar River Watershed Habitat Conservation Plan (the "HCP"), a comprehensive, 50-year set of legal agreements with State and federal governments.

The City's water rights on the South Fork of the Tolt River were established by permits for water storage and water diversion granted by the State in 1957, with a priority date of July 14, 1936. These water rights remain in permit status. In 1989, the Federal Energy Regulatory Commission granted a license to Seattle City Light to build a hydroelectric power plant on the South Fork of the Tolt River, resulting in modifications to the terms of the original water permits. The project was completed in 1996, and in 1997, Seattle City Light documented the full beneficial use of the water needed for the hydropower plant and received a certificate of water right.

On an aquifer located south of Seattle and immediately north of the Seattle-Tacoma International Airport, the City has developed three supply wells with a combined capacity of 10 million gallons per day ("MGD") to augment the City's surface water supply. The feasibility of recharging the aquifer with surplus winter-spring flows from the Cedar River has been tested successfully. The wells are operated under temporary permits from the State of Washington Department of Ecology ("DOE"). The City has applied for permits which can be converted into water rights. DOE currently is in the process of finalizing a Report of Examination on the application, the step prior to issuing a permit.

In addition to the surface water supply diversions and the aquifer, the City has two barge-mounted pumping plants on Chester Morse Lake for use in the event of droughts. Each plant has the capacity to pump up to 120 MGD of high quality water from below the lowest natural outlet of the lake.

The administration of water rights in Washington is a matter of ongoing development and debate in the State Legislature and the courts.

Future Water Supply and Conservation

At present, SPU has adequate supply resources to meet Water System demands under a wide range of weather conditions. Existing sources of supply owned by the City provide an average annual firm yield of 171 MGD, an increase from 160 MGD in 2001 due to the completion of a new filtration plant on the Tolt River, which removes some of the restrictions on reservoir drawdowns. Demand in the service area, which averaged 148 MGD in the late 1990's, was 137 MGD in 2002 and 140 MGD in 2003. Providing sufficient water during the summer, when demand is 40 percent higher than during the winter, is the major challenge, as the Water System depends on seasonal storage to meet that demand.

Current forecasts of demand and supply suggest that a new primary source of supply will not be needed until sometime after 2050. While population growth in SPU's water service area is forecast to exceed one percent per year, water demand is expected to increase much more slowly due to conservation. Over the past decade, conservation has been encouraged through higher marginal rates in the summer peak season, aggressive water conservation programs, new state plumbing codes specifying efficiency standards for water fixtures, and improved system operations. As a result, annual average consumption declined from 170 MGD in 1990 to 140 MGD in 2003. In addition, the One Percent Conservation Program initiated in 1999 is expected to offset population growth and keep demand flat for at least the next ten years. See "Capital Improvement Program." In 2001, the City enacted a more aggressive conservation program designed to reduce the aggregate level of demand for water by 12 MGD by 2010 and established a water trust program to benefit the environment.

SPU is actively engaged in the evaluation of new sources of supply and conservation programs to meet the projected growth within the existing service area, to provide a hedge against potential reduction of water diversions to support environmental and related objectives and to serve water agencies within the region that

are not Purveyors currently but might be added to the Water System. In addition to new conservation programs, additional water resources have been identified, including:

- (i) development of the Snoqualmie River Valley/North Bend Aquifer,
- (ii) installation of a permanent pumping plant at Chester Morse Lake,
- (iii) drawdown of Lake Youngs (which stores treated water from the Cedar River) for water supply,
- (iv) additional drawdown of the reservoir on the South Fork of the Tolt River, and
- (v) development of a new source of supply at the North Fork of the Tolt River.

SPU participated for a number of years in the planning of a project to expand Tacoma's water supply and deliver a portion of this new supply to SPU through a new pipeline connecting the two water systems (the "Tacoma Project"). In 2002, the City determined that further participation in the Tacoma Project was not necessary to meet the future supply needs of the Water System.

Endangered Species Act

In 1999, the National Marine Fisheries Service ("NMFS") listed the Puget Sound chinook salmon, which migrate through waterways within and adjacent to the City, as a "threatened species" under the Endangered Species Act (the "ESA"). NMFS subsequently finalized a "4(d) rule" extending the ESA's prohibition against "take" to Puget Sound chinook salmon. This rule enables jurisdictions to submit plans that, if approved, would limit the application of the general prohibition to activities covered in the plan. Eligible activities include certain municipal, residential, commercial, and industrial development activities, certain road maintenance activities and certain forestry activities. The full implications of this listing and the 4(d) rule for the Water System are difficult to predict due to the many legal and scientific uncertainties associated with the application of the ESA to water supply operations.

In an effort to reduce uncertainty with regard to its largest water supply source, the Cedar River, the City entered into the HCP with the U.S. Fish and Wildlife Service ("USFWS") and NMFS in 2000. The HCP specifies the measures the City will undertake to minimize and mitigate potential impacts on listed species. The HCP commits the City to spend about \$93 million to improve conditions for fish and wildlife within the Cedar River Watershed over the next 50 years, including expenditure of about \$25 million in the first six years for capital improvements. See "Watershed Management Policies" and "Capital Improvement Program." While these measures include commitments to instream flow levels, the Water System's estimated firm yield would not be impacted adversely by the HCP. The incidental take permit, which the City was issued when the HCP was approved, protects the City from ESA liability resulting from potential impacts of the Water System's Cedar River operations on chinook salmon, bull trout and approximately 80 other species of anadromous fish known to be present and potentially affected by the City's water supply, hydroelectric and land management activities.

A lawsuit brought by the Muckleshoot Indian Tribe challenged the validity of the DOE's action in executing the Instream Flow Agreement for the Cedar River, which is an ancillary agreement to the HCP. This lawsuit was dismissed by the trial court and the dismissal has been affirmed, thus ending the lawsuit. In December 2003, the Muckleshoot Indian Tribe filed a lawsuit against National Oceanic and Atmospheric Administration ("NOAA") Fisheries for its issuance of the Incidental Take Permit for the HCP. The City has intervened, and a hearing has been set for November 2004. The litigation is not expected to affect the City's firm yield from the Cedar River source.

The second major Water System supply is drawn from the South Fork of the Tolt River, using a dam which, unlike the one on the Cedar River, is situated above a natural fish barrier. Streamflow levels downstream from the dam are affected by dam operations and water diversions, with potential impacts on chinook salmon. The City, tribes and several federal agencies have entered into the 1988 Tolt River Settlement Agreement, which includes commitments for streamflows and habitat improvements that were intended to mitigate for impacts caused by the City's water supply and power generation operations. The implications of the chinook listing for the Tolt River supply remain uncertain because, although other interested parties and agencies believe the flows are adequate for fish protection, NMFS has not made any determination as to their adequacy

under the ESA. The City will attempt to resolve this uncertainty through one of the alternative mechanisms available under the ESA. At this point it is uncertain which mechanism will be used, how long it will take and whether additional mitigation will be required. However, it is anticipated that firm yield will not be affected.

Bull trout also have been listed as threatened and endangered and other fish listings can be anticipated. Because it is unknown whether bull trout are present in the Tolt River, the impact of the bull trout listing on the Tolt River and other City operations is unknown.

It is likely that other activities will be affected by the ESA. Facility construction and maintenance activities are under considerable environmental scrutiny, so at a minimum there are likely to be delays in permitting while federal, State and local agencies continue to sort out their respective regulatory roles. The extent to which additional costs will be incurred for mitigation specifically related to ESA is unknown.

To further manage legal risks, the City has invested in chinook salmon research for its major waterways and participated in regional watershed planning for the Cedar River, the Snohomish/Tolt Rivers and the Green/Duwamish Rivers. As a result, over the last two years it has assembled substantial data on chinook salmon and new scientific methods that provide the basis for development of best management practices (“BMPs”) in several key City activity areas, including most recently BMPs for water maintenance activities within road right-of-ways. In addition, salmon research and funding of staff at federal regulatory agencies responsible for ESA Section 7 consultations are allowing better project design, which are expected to result in fewer anticipated permit delays.

The City and SPU expect that additional funding will be needed to support habitat restoration programs that address salmon-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water rates, drainage and wastewater rates and general fund money, taxes or fees imposed by other local jurisdictions, and federal and State grants.

Transmission Facilities

The transmission facilities of the Water System consist of multiple primary transmission lines from the Cedar River, one transmission line and substantial portions of a second line from the Tolt River (“Tolt 1” and “Tolt 2”) and a network of supply mains throughout the total service area. In all, there are approximately 153 miles of primarily concrete or steel pipelines ranging in diameter from 30 to 96 inches.

In the late 1980s, two segments of the Tolt 1 ruptured and subsequent inspection revealed the potential for future failures due to corrosion in the steel rods which form a spiral wrapping for the pipe. All but one mile of the weakened pipe has been rehabilitated or sliplined. The last mile is expected to be rehabilitated within the next three years. In addition, for both reliability and new capacity, a new 25.3-mile transmission line (“Tolt 2”) is being constructed that will begin at the Tolt source and run parallel to and interconnect with Tolt 1 at several locations. A total of 18 miles of Tolt 2 has been constructed, which is expected to provide adequate reliability and capacity for the foreseeable future.

To assist in maintaining water flow to the distribution portion of the Water System, the transmission system includes two regulating basins and six storage reservoirs. In addition, there are seven pumping stations with a total rated capacity of 100,250 gallons per minute (“GPM”). The following table shows the hydraulic capacities of the primary transmission lines and the transmission regulating basins and reservoirs of the Water System.

CAPACITY OF INDIVIDUAL COMPONENTS OF THE TRANSMISSION SYSTEM ⁽¹⁾

Facility	Capacity
Transmission Lines (MGD):	
Cedar River	275
Tolt River ⁽²⁾	<u>125</u>
Total	400
Storage Facilities (MG):	
Lake Youngs (regulating basin) ⁽³⁾	4,812
Tolt Regulating Basin ⁽³⁾	312
Reservoirs	<u>185</u>
Total	5,309

(1) Treatment capacity is 120 MGD on the Tolt River source and 180 MGD on the Cedar River source. Equalizing reservoirs (clearwells) at the outlet of the treatment plants (5 MG on the Tolt River supply, 20 MG on the Cedar River supply) make it possible to deliver higher flow rates as needed into the transmission system for several hours. Averaged over several days, though, effective transmission capacity cannot exceed treatment capacity, as all water must be treated.

(1) Based on pipe that is currently in service or installed.

(2) Effective capacity under current operating guidelines is less than hydraulic capacity.

Source: Seattle Public Utilities

During the month of record maximum consumption, July 1985, the transmission lines delivered an average of 301 MGD.

Treatment Plants

In 2001, SPU commissioned a new treatment plant on the Tolt source with a maximum treatment capacity of 120 MGD. The treatment process includes coagulation, ozonation, rapid sand filtration, pH adjustment, and chlorination. The plant is owned by SPU but is operated under contract by a private company.

SPU is currently participating in the final acceptance testing of a new treatment facility on the Cedar River, with a maximum treatment capacity of 180 MGD. The treatment process includes ozonation, disinfection with ultraviolet light, pH adjustment, and chlorination. The plant also is owned by SPU but operated under contract by a private company.

Storage and Distribution

Storage of water within the distribution portion of the Water System is accomplished by nine reservoirs, built or rebuilt between 1901 and 2004, nine standpipes and seven elevated tanks with capacities as follows:

DISTRIBUTION CAPACITY (MGs)	
Reservoirs	248.5
Standpipes	9.0
Elevated Tanks	<u>8.5</u>
Total	275.0

Source: Seattle Public Utilities

SPU operates under storage guidelines promulgated by DOH. These guidelines specify a minimum amount of distribution storage capacity for emergencies of 200 gallons per residential household equivalent. Existing storage in the direct service area as a whole significantly exceeds the minimum requirement; some hilltop communities have less storage available by gravity, but can be supplied from lower elevation reservoirs by pumping.

The distribution system consists of approximately 1,660 miles of predominantly cast iron and ductile iron pipe and some concrete and steel pipe. The only asbestos cement pipe is in a distribution system in a City park. To assist in maintaining adequate pressure within the distribution system, there are 25 electric and hydraulic pumping stations with a total rated pumping capacity of 261.3 MGD.

The storage and distribution facilities and conservation incentives have met the needs of the expanding population in the service area. Peak day consumption levels as high as 329 MG and 348 MG were recorded on June 29, 1987, and July 15, 1970, respectively. However, in the last ten years, peak daily consumption has averaged about 243 MG.

In the last decade, two studies have been conducted to evaluate leakage from the Water System. System-wide leakage is estimated at 3.1 MGD. Total uses of non-revenue producing water (leakage, system cleaning and flushing, fire fighting, and lake flushing) are estimated at nine to ten MGD, or about seven percent of total water usage.

Seismic Reliability

Since the late 1980's, several engineering evaluations have been made of the major parts of the Water System to assess the reliability of the Water System in the event of a major earthquake. Analysis has included the effects of (i) a magnitude 7.5 earthquake centered under a facility, and (ii) a magnitude 8.25 subduction earthquake within 95 miles of a facility. Overall, Water System facilities generally are expected to remain operational in the event of a major earthquake. Most of the tank-type reservoirs, both elevated tanks and standpipes, are predicted to sustain some damage and leakage.

Seismic improvement work was initiated in 1993, and several tanks and standpipes have since been replaced or retrofitted with additional supports. Several more may be upgraded or replaced in the near future. While the ultimate cost of the remedial work is uncertain, SPU believes that the projects and costs already included in the Capital Improvement Program (the "CIP") represent the major portion of the costs of the identified remedial program.

Water Quality

SPU has a comprehensive source-to-tap water quality management program. Water quality is ensured through an integrated effort of source protection, state of the art treatment and ongoing monitoring throughout the system for potential microbial and chemical contaminants.

SPU owns the Cedar River Water shed and 70 percent of the South Fork Tolt River Watershed (the other 30 percent is U.S. Forest Service land) above the intake points. Protection of the two watersheds from agricultural, industrial and recreational activities helps ensure that high quality water is delivered to 1.3 million people in the Seattle area. In addition to the two primary surface sources, three wells on an aquifer south of the City periodically provide a small portion of the City's water supply. These wells are deep and afford natural protection from contamination.

Water quality is further improved by treatment. The primary treatment used on the Cedar River water supply is screening, fluoridation, corrosion control, and disinfection with chlorine. The Tolt River supply treatment includes ozonation, coagulation and flocculation, filtration, chlorination, fluoridation, and corrosion control. When wells are in operation, treatment includes chlorination, fluoridation and pH adjustment. The intent of treatment is to protect public health and to comply with treatment and monitoring requirements of the Washington State Department of Health ("WDOH"). SPU operates a water quality laboratory certified by DOE for bacteriological and chemical analyses to help ensure compliance with drinking water standards.

As an operator of a community water system, SPU must comply with treatment and monitoring requirements of the Safe Drinking Water Act of 1974 as amended and any additional requirements as specified by WDOH. Water quality parameters and regulations of particular significance are discussed below.

Surface Water Treatment. The federal Surface Water Treatment Rule established filtration and disinfection requirements for public water systems utilizing surface sources. It also established the Limited Alternative to

Filtration (“LAF”) and the criteria for avoiding filtration. These criteria include (i) watershed protection and management, (ii) raw water quality, (iii) treatment efficiency and redundancy, and (iv) some aspects of distribution system water quality.

SPU has consistently met all criteria except for fecal coliform densities in Cedar River raw water prior to treatment. As a result, SPU entered into an Agreed Order with WDOH requiring SPU to install ozonation and ultraviolet light disinfection on the outlet of Lake Youngs. The facility, which came on-line in July 2004, provides SPU the flexibility to produce high quality treated water as regulatory requirements increase. It is expected that in the fall of 2004, WDOH will formally agree that SPU has met all the requirements of the Agreed Order.

In parallel with the development of the Cedar River treatment facility, SPU has been pursuing the LAF. The LAF provides increased regulatory certainty and operational flexibility. It is an option for the Cedar River supply because of the exceptional source water protection (100 percent watershed ownership) and the high degree of source water treatment (ozonation and ultraviolet light disinfection). WDOH has approved SPU’s LAF application and EPA has concurred.

Lead and Copper. Lead and copper have not been detected in the source water. Lead in water normally comes from plumbing materials, primarily from corrosion of lead solder used to connect copper pipes and from brass fixtures. SPU recognized this as a potential problem over 25 years ago and has been treating the water to reduce its corrosiveness since the early 1980s. The City was the first municipality in the nation to ban the use of lead solder in potable plumbing systems. The steps taken in the last two decades to reduce the corrosiveness of the water have been successful in reducing lead levels at customer taps. Results from two rounds of residential tap sampling in 2003 and 2004 have shown an even further reduction in lead and copper levels since the Tolt Treatment Facility came on-line in 2001 and two Tolt service area reservoirs were covered. The 90th percentile values from both rounds were below the lead and copper action levels required by regulations.

Disinfection Byproducts. The use of disinfectants, such as chlorine, to provide microbial protection of water can result in the formation of disinfection byproducts (“DBPs”) when the disinfectants react with organic matter in the water. SPU was able to meet standards set by the Stage 1 DBP Rule in distribution system locations supplied by the Tolt River source as a result of the improved treatment provided by the Tolt Treatment Facility’s filtration process. DBP levels in the distribution system supplied by the Cedar River source have been acceptable under the current treatment processes. Recent sampling and analysis indicates SPU meets current regulatory standards for DBPs and anticipates meeting increasingly stringent future requirements.

Open Reservoirs. The 1994 revisions to WDOH drinking water regulations required the development of a plan to cover all open distribution reservoirs. SPU developed and is now implementing a Reservoir Covering Plan, which WDOH approved. Since 2002, SPU has covered one transmission and two distribution reservoirs. By 2015, five of the remaining six open reservoirs will be replaced and one will be decommissioned.

Arsenic. Testing of the City’s two primary drinking water sources from the Tolt and Cedar River watersheds indicate that arsenic is not present above one part per billion, the City’s detection limits. Arsenic may occur naturally in groundwater but is not usually found in surface sources. With the periodic operation of a well at Boulevard Park and two wells at Riverton Heights, the question has arisen whether arsenic is a concern from these wells. The EPA recently revised the arsenic standard lowering the Maximum Contaminant Level (“MCL”) from 50 parts per billion (“ppb” or may be expressed as 0.050 mg/L) to 10 ppb. Naturally occurring arsenic concentration in the Riverton Heights wells ranges from 5.7 ppb to 2.7 ppb and has been found in the Boulevard Park Well at 1.5 ppb, significantly below the MCL that is considered protective of human health. The new MCL will not affect the City’s current surface sources or existing wells.

Radon. Radon is a radioactive gas that emits ionizing radiation and may be released from tap water. Although no current rule regulates radon in water, a Radon Rule was proposed in 1999 and is expected to be finalized soon. Once finalized, systems would begin initial monitoring approximately four years later. The

seasonally operated wells at Boulevard Park and Riverton Heights contain naturally occurring radon on the order of 400 to 600 picoCuries per liter (“pCi/L”) at the wellhead. When in operation, water from the wells is blended with the Cedar River supply and concentrations in the distribution system are much lower. The anticipated primary MCL for water is 300 pCi/L. If the State and/or SPU develop and implement (or fund) a multi-media mitigation program (“MMMP”) to address radon levels in indoor air, the Alternative MCL for radon in water is 4000 pCi/L. The unique regulatory framework reflects the characteristics of radon: in most cases, radon released to indoor air from soil under homes and buildings is the main source of exposure, and radon released from tap water is a much smaller source of radon in indoor air. It is more cost-effective to reduce risk from radon exposure from indoor air than from drinking water, and the EPA has encouraged states to take full advantage of the flexibility and risk reduction opportunities in the MMMP. Assuming an alternative MCL under the MMMP, SPU would have radon concentrations ten times less than the maximum level.

Watershed Management Policies

SPU carries out programs of watershed resource management, fire protection and the protection of water resources within the Cedar River and South Fork of the Tolt River Watersheds. Seattle City Light also operates a small hydroelectric plant in the Cedar River Watershed.

Land development impacts and more stringent regulatory standards have made ownership of the property in the watersheds an increasingly important element of SPU’s overall strategy to preserve and enhance water quality. The City now owns more than 99 percent of the 141-square-mile Cedar River Watershed. The City also owns 70 percent of the 21-square-mile South Fork of the Tolt River Watershed and the U.S. Forest Service owns the remainder.

Consolidated ownership of the Cedar River basin has resulted in strengthening forest management, wildlife and other programs that are based upon comprehensive management policies adopted in 1989 to guide the secondary uses of the watershed. Prior to 2000, management policies for the Cedar River Watershed provided for selective commercial harvest of second growth timber. The timber harvest program and related policies were re-evaluated during the development of the Cedar River Watershed HCP, and the City committed to discontinuing timber harvest for commercial purposes over the 50-year lifespan of the HCP. While trees may be cut, timber harvests are allowed only when they benefit fish or wildlife populations and support the goals and objectives of the HCP.

The HCP commits the City to improving fish and wildlife habitat, including providing salmonid fish passage, ecological and restoration thinning and planting of more than 17,000 acres of second growth forest, restoration of riparian, wetland and stream habitats, and the abandonment of more than 200 miles of logging roads in the watershed.

Purveyor Contracts

Approximately 30 percent of water sales revenue is derived from wholesale sales to Purveyors. Purveyors include 20 water districts and municipalities served under individual contracts and a consortium of municipalities and water districts called the Cascade Water Alliance (“CWA”), which includes five formerly served under individual contracts.

Sales to ten purveyors (representing 23 percent of these sales by volume of water consumed) are governed by contracts signed in 1982 which will expire in 2011. These contracts obligate the City to meet the Purveyors’ demand for water (except in emergency conditions) and provide the City with the long-term commitments requisite to investing in future Water System expansions to serve the Purveyors. Under these contracts, any Purveyor that decides to develop alternative sources and leave the Water System must give five years’ notice and hold harmless the City and remaining Purveyors from any increased capital and operating costs allocated to them as a result of such withdrawal.

Ten Purveyors that represent about 37 percent of total Purveyor consumption have signed new full and partial requirements contracts with a 60-year term and relinquished their rights and responsibilities under the 1982 contract. These contracts obligate the City to meet the Purveyors’ demand that is not already met by their

independent sources of supply. Compared to the 1982 contract, the new contracts make it easier for a Purveyor to develop alternative sources of water and reduce its purchases from the City.

SPU has signed a declining block sales contract with CWA. CWA demand represents about 39 percent of total Purveyor consumption. The block contract caps CWA demand from the Water System at 30.3 MGD through 2024, when the block volume begins to decline. CWA will develop sources of supply to satisfy the future water demands of CWA members above the cap amount and is funding feasibility studies for using Lake Tapps in Pierce County as a potable water supply.

The following table lists consumption in hundred cubic feet (“ccf”) by individual Purveyors and revenues generated by water sales to individual Purveyors in 2003.

WATER SALES TO PURVEYORS IN 2003⁽¹⁾

Purveyor	Consumption (ccf)	Revenue
Bellevue ⁽²⁾⁽⁴⁾	8,124,609	\$ 10,569,845
Kirkland ⁽²⁾⁽⁴⁾	3,238,310	4,281,260
Highline ⁽³⁾	3,233,149	3,517,081
Northshore ⁽²⁾	2,983,637	3,990,187
Woodinville ⁽²⁾	2,371,019	3,828,300
Soos Creek ⁽²⁾⁽³⁾	2,296,099	2,973,040
Water District #20 ⁽²⁾⁽³⁾	1,417,155	1,495,962
Coal Creek ⁽²⁾⁽³⁾	1,237,310	1,685,909
Mercer Island ⁽²⁾⁽³⁾	1,165,501	1,334,191
Tukwila ⁽⁴⁾	1,092,216	1,245,335
Cedar River ⁽³⁾	980,516	1,375,266
Shoreline ⁽²⁾⁽³⁾	968,906	997,159
Bothell ⁽²⁾	783,847	1,255,683
Water District #49	611,986	689,372
Water District #125 ⁽³⁾	560,331	570,384
Water District #90 ⁽²⁾	496,043	576,853
Olympic View ⁽³⁾	471,345	546,712
Redmond ⁽⁴⁾	364,646	747,091
Other Purveyors	929,379	1,318,129
Total	<u>33,326,004</u>	<u>\$ 42,997,759</u>

(1) Figures are 2003 metered water consumption and associated revenue from SPU records, not net of certain credits, accruals and allowances included in the audited financial statements.

(2) Indicates Purveyors that buy all water from SPU.

(3) Indicates Purveyors that have signed the new contract.

(4) Indicates CWA member effective 2004.

Source: Seattle Public Utilities

Major Retail Water Users

There are no major water-intensive users in the service area. The Water System’s ten largest retail water users in 2003 included the University of Washington, the Seattle Parks Department, the Seattle Housing Authority, Seattle-Tacoma International Airport, Seattle Steam, the Port of Seattle, Todd Shipyards, Swedish Medical Center, the Seattle School District, and King County. In the aggregate, revenue from these customers was less than six percent of operating revenues in 2003.

Water Rates

Establishment of Rates. Water rates are proposed by the Mayor, reviewed by the City Council and adopted after public hearings. The Mayor and the City Council have exclusive authority to set rates and charges for

water services. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

The following table shows water rate increases since 1999.

<u>Year</u>	<u>Rate Increase</u>
1999	10.5%
2000	19.1
2001	5.9
2002	5.6
2003	14.5
2004	10.6

Source: Seattle Public Utilities

The following table shows the rates that went into effect as of January 1, 2004. Both retail and wholesale rates are seasonally differentiated; the summer residential rate has an inclining block structure. Rates to Purveyors served through master meters are established by the Purveyor contracts.

**SEATTLE WATER SYSTEM
2004 MONTHLY WATER RATES**

	<u>Residential ⁽¹⁾</u>	<u>Commercial ⁽¹⁾</u>	<u>Purveyor (Old/New Contract)</u>
Commodity Charge (\$ per ccf)			
Winter (eight months)	\$ 2.53	\$ 2.00	\$ 0.97/0.94
Summer (four months)		3.35	1.48/1.42
Up to 500 cubic feet ("cf")	2.88	NA	NA/NA
Next 1000 cf	3.35	NA	NA/NA
Over 1500 cf	8.55	NA	NA/NA
Growth charge ⁽²⁾	NA	NA	0.82/0.60
Basic Service Charge (\$ per month)⁽³⁾			
3/4"	\$ 6.90	\$ 6.90	NA/NA
1"	8.75	8.75	\$ 54.00/NA
1-1/2"	14.30	14.30	60.00/NA
2"	22.00	22.00	66.00/NA
4"	42.00	42.00	108.00/NA

(1) Retail rates to customers outside the City limits are 14 percent higher.

(2) An individual Purveyor pays a growth charge on any purchases in excess of purchases in the base period (1979–81).

(3) The Basic Service Charge is based on the size of the customer's meter. Rates for larger meters are not shown.

Source: Seattle Public Utilities

Rate Comparisons. Seattle's water rates have risen faster than the rate of inflation over the past five years and now are above the average of other cities of its size.

The following table shows 2004 water bill rates for Seattle compared to other cities in the region.

REGIONAL COMPARISONS
(2004 RATES, IN EFFECT AS OF JANUARY 1, 2004)

City	State	Residential (6 ccf/month)	Commercial (500 ccf/month)	Industrial (15,000 ccf/month)
Bellevue	Washington	\$ 24.32	\$ 1,330	\$ 38,419
Seattle	Washington	23.21	1,247	36,772
Tacoma	Washington	16.45	508	11,053
Portland	Oregon	13.27	869	25,809
Everett	Washington	10.83	570	11,880
Average		\$ 17.62	\$ 905	\$ 24,787

Source: SPU Survey

Billing. SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts. Customers receive a combined utility bill that itemizes amounts due for water, wastewater and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is transferred to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, water may be shut off when an account is delinquent. Delinquent charges bear interest at the rate of 12 percent per annum.

Capital Improvement Program

Capital investments are guided by the Water Plan and multi-year CIP, which is developed within the framework of the Water Plan and included in the Capital Improvement Program of the City as a whole. The CIP is reviewed, revised and adopted annually by the Mayor and Council as part of the City's budget process. See "Comprehensive Planning." The CIP and the Water Plan are the basic elements of the Plan of Additions, for which the Bonds are a partial funding source. The CIP identifies facility needs and financing for rehabilitation, enhancement and expansion of the Water System. Currently its goals are to rehabilitate the water distribution system, make seismic improvements at a few critical locations and make water quality improvements.

Over the next 20 years, the CIP is estimated to cost \$1.2 billion (in constant 2004 dollars). Future bond financings over the next six years are estimated to total \$281.1 million (nominal dollars). In the period 2004 through 2009, the CIP will require a higher than historical level of investment which is due, in large part, to burying the storage reservoirs in the City. Including the Bonds, SPU expects to issue approximately \$393.6 million in debt for the CIP during the period 2004 through 2009. Annual debt service is expected to rise from \$55.0 million in 2004 to \$75.4 million in 2009.

The CIP is organized into program areas: (i) Water Infrastructure, (ii) Environmental Stewardship, (iii) Other Agencies, (iv) Bonneville Agreement, (v) Water Quality, (vi) Water Supply and Conservation, (vii) Habitat Conservation Plan, (viii) Shared Cost Projects, and (ix) Technology, as shown in the table below. The amounts shown for each program area in the table below were adopted by the City Council as the 2004-2009 Capital Improvement Program. SPU has prepared a 2005-2010 CIP for consideration by the Mayor that includes \$44 million less in expenditures in the 2005-2009 period than the levels shown below.

**WATER SYSTEM
CAPITAL IMPROVEMENT PROGRAM
(Amounts in Thousands of Nominal Dollars)**

	2004	2005	2006	2007	2008	2009	Total
Program Area							
Water Infrastructure	\$ 29,236	\$ 44,839	\$ 47,520	\$ 46,486	\$ 43,378	\$ 46,078	\$257,537
Environmental Stewardship	1,463	710	660	691	724	742	4,990
Other Agencies	3,215	2,959	793	900	1,363	900	10,130
Bonneville Agreement	2,114	2,385	685	131	50	0	5,365
Water Quality	18,617	15,655	28,309	32,336	41,445	10,826	147,188
Water Supply and Conservation	7,668	9,498	7,432	7,077	7,803	8,066	47,544
Habitat Conservation Plan	11,691	9,216	2,884	3,062	3,732	3,832	34,417
Shared Cost Projects	2,733	4,889	4,260	1,847	912	835	15,476
Technology	3,153	3,553	3,464	3,378	3,293	3,211	20,052
Total	\$ 79,890	\$ 93,704	\$ 96,007	\$ 95,908	\$102,700	\$ 74,490	\$542,699
Funding Sources							
Debt Financing							
Outstanding Bonds	\$ 52,375	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 52,375
The Bonds	9,185	74,963	4,452	0	0	0	88,600
Future Bonds	0	0	72,354	76,836	79,638	52,252	281,080
Total Debt Financing	\$ 61,560	\$ 74,963	\$ 76,806	\$ 76,836	\$ 79,638	\$ 52,252	422,055
Internally Generated Funds	12,976	11,274	10,956	10,773	15,510	15,523	77,012
Grants and Reimbursement	5,354	7,467	8,246	8,298	7,552	6,715	43,632
Total	\$ 79,890	\$ 93,704	\$ 96,007	\$ 95,908	\$102,700	\$ 74,490	\$542,699

The development of the CIP balances financial capacity with the demands of rehabilitation, improvement, water quality, and expansion. In response, SPU has steadily expanded the Water System CIP, raised rates and increased its long-term borrowing plans. In managing the expansion of the CIP, SPU has emphasized efficient project design and careful staging of improvements within the 20-year time frame of the Water Plan. In the period 2004 through 2009, SPU expects the financial requirements for these projects to be met from Net Revenue of the Water System, the proceeds of the Bonds and the proceeds of Future Parity and Subordinate Lien Bonds (approximately \$281 million). About 78 percent of the cost of the CIP is expected to be financed by the issuance of bonds.

Financial Policies

The Mayor and Council have established financial policies by resolution for SPU, including the Water System. In accordance with these policies, water rates are set to achieve generally positive net income and cash balances and a minimum debt service coverage ratio on fixed rate long-term Parity Bonds of 1.70 times annual debt service.

In 2002, the City by ordinance strengthened the Rate Stabilization Account by announcing an intent to raise rates to achieve a balance of \$9 million in approximately four years if no money is withdrawn to meet coverage requirements. Rates were set to collect \$2.5 million per year for deposit into this account in 2003 and 2004, and strong revenue collections in summer 2003 allowed a total deposit of \$5.3 million. The balance in the account is intended for use during periods of poor water sales, and may be withdrawn only by ordinance. Revenues contributed to the Rate Stabilization Account are not considered available for debt service coverage in the year they are contributed, but are considered available for coverage in the year they are withdrawn. See Appendix A—Ordinance—Section 18.

Financial Performance

The table “Operating Results” shows historical revenues and expenses of the Water System for the years 1999 through 2003 and projected revenues and expenses for 2004 and 2005. Notes to the table are shown on the

following page. The projections assume a 2.5 percent inflation rate, 5.5 percent interest cost on the Bonds, 5.5 percent interest cost on new long-term bonds, 4.0 percent interest cost on variable rate debt, 3.5 percent interest earnings on cash balances, and a rate increase effective January 1, 2005.

Overall demand is assumed to decline by approximately 1.3 percent in 2004 and 2005. The One Percent Conservation Program is expected to continue offsetting the impact of population and employment growth on wholesale water demand, while more than offsetting the effects of growth within Seattle.

IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE CITY HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE CITY BELIEVES THAT, AS OF THE DATE OF THIS OFFICIAL STATEMENT, THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, INCLUDING A WIDE VARIETY OF RISKS AND UNCERTAINTIES. ACTUAL CONDITIONS MAY DIFFER MATERIALLY FROM THOSE ASSUMED. THE CITY DOES NOT REPRESENT, WARRANT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE CITY HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

NEITHER SPU'S INDEPENDENT AUDITORS, NOR ANY OTHER INDEPENDENT ACCOUNTANTS, HAVE COMPILED, EXAMINED OR PERFORMED ANY PROCEDURES WITH RESPECT TO THE PROSPECTIVE FINANCIAL INFORMATION CONTAINED HEREIN, NOR HAVE THEY EXPRESSED ANY OPINION OR ANY OTHER FORM OF ASSURANCE ON SUCH INFORMATION OR ITS ACHIEVABILITY, AND ASSUME NO RESPONSIBILITY FOR, AND DISCLAIM ANY ASSOCIATION WITH, THE PROSPECTIVE FINANCIAL INFORMATION.

**WATER SYSTEM
OPERATING RESULTS**

	Actual				Projected		
	1999	2000	2001	2002	2003	2004	2005
Operating Revenue							
Water Sales	\$ 85,262,080	\$ 104,181,106	\$ 103,827,467	\$ 116,634,076	\$ 133,337,503	\$ 139,889,046	\$ 141,930,249
Planned Deposits to Rate Stabilization Account ⁽¹⁾					(5,349,004)	(5,000,000)	0
Other	992,697	1,177,201	1,517,850	1,526,054	1,572,828	1,522,337	1,560,456
Total Operating Revenue	\$ 86,254,777	\$ 105,358,307	\$ 105,345,317	\$ 118,160,130	\$ 129,561,327	\$ 136,411,383	\$ 143,490,705
Other Income							
Interest Income-Other	\$ 1,948,977	\$ 7,106,312	\$ 2,206,350	\$ 1,147,940	\$ 809,417	\$ 1,452,222	\$ 2,071,432
Timber Income and Other, Net	(406,448)	1,281,234	1,456,845	(175,146)	6,596,040	800,062	521,664
Total Other Income	\$ 1,542,529	\$ 8,387,546	\$ 3,663,195	\$ 972,794	\$ 7,405,457	\$ 2,252,284	\$ 2,593,096
Operating Expenses							
Operating and Maintenance Expenses							
Expenses	\$ 45,385,001	\$ 44,326,034	\$ 51,735,755	\$ 53,895,481	\$ 56,270,565	\$ 53,110,378	\$ 56,226,264
Taxes Other Than City Taxes	3,186,323	3,684,762	3,705,544	3,928,747	4,621,600	5,362,625	5,381,881
Other Expenses							
City Taxes	5,670,494	6,890,171	7,157,162	7,867,504	8,942,200	9,978,831	13,417,229
Depreciation	19,625,179	18,424,697	23,748,307	25,171,216	28,123,308	30,629,000	37,426,834
Total Operating Expenses	\$ 73,866,997	\$ 73,325,664	\$ 86,346,768	\$ 90,862,948	\$ 97,957,673	\$ 99,080,834	\$ 112,452,208
Loss on Tacoma Project ⁽²⁾	\$ 0	\$ 0	\$ 0	\$ 6,636,051	\$ 0	\$ 0	\$ 0
Interest Expenses and Amortization of							
Debt Issue Costs and Net Discount	17,342,738	19,692,141	23,248,432	25,230,559	26,904,943	30,266,967	36,682,902
Net Income ⁽³⁾	\$ (3,412,429)	\$ 20,728,048	\$ 4,883,993	\$ 2,570,409	\$ 16,852,879	\$ 14,669,885	\$ 4,415,513
Contributions in Aid of Construction	\$ 7,457,305	\$ 5,183,193	\$ 5,470,681	\$ 6,167,043	\$ 4,748,711	\$ 5,354,019	\$ 7,466,822
Transfer to/from Rate Stabilization Account							
Planned Deposits ⁽⁴⁾	0	(4,252,000)	1,252,000	3,000,000	(5,349,004)	(5,000,000)	0
Bonneville Power Administration Account ⁽⁵⁾					(6,657,149)	1,171,000	3,370,000
Accrued and Other Non-Cash Expenses	4,612,609	(18,004)	688,494	517,083	2,998,296	0	0
Revenue Available for Debt Service ⁽⁶⁾	\$ 51,295,896	\$ 66,648,246	\$ 60,978,388	\$ 70,992,822	\$ 77,164,477	\$ 86,715,683	\$ 95,312,478
Debt Service							
Parity Lien Debt Service	\$ 31,177,241	\$ 41,316,088	\$ 44,540,206	\$ 47,116,045	\$ 47,121,632	\$ 51,091,207	\$ 55,072,296
Subordinate Lien Debt Service	1,647,215	2,728,236	2,323,115	2,149,126	3,332,565	3,912,261	6,490,956
Total Debt Service	\$ 32,824,456	\$ 44,044,324	\$ 46,863,321	\$ 49,265,171	\$ 50,454,197	\$ 55,003,468	\$ 61,563,252
Debt Service Coverage							
Parity Lien Debt Service Coverage	1.65	1.61	1.37	1.51	1.64	1.70	1.73
Subordinate Lien Debt Service Coverage	12.21	9.29	7.08	11.11	9.01	9.11	6.20
Overall Debt Service Coverage	1.56	1.51	1.30	1.44	1.53	1.58	1.55

- (1) Revenues associated with planned deposits in the Revenue Stabilization Fund are excluded from annual revenues in 2003 through 2005 in accordance with FAS 71.
- (2) The City has elected not to participate in the Tacoma Project. Life-to-date costs are recorded as an extraordinary expense. See "Water Supply and Conservation."
- (3) Net income in 2001 through 2004 includes contributions in aid of construction.
- (4) In accordance with Ordinance 120659, rates from 2003 are set to allow a deposit of \$2.5 million per year into the Rate Stabilization Account. This \$2.5 million is not available for debt service coverage until withdrawn.
- (5) Windfall revenues associated with the sale of an easement to the Bonneville Power Administration are included in net income in 2003, but are not considered available for payment of debt service until withdrawn.
- (6) Revenue available for debt service = net income (including contributions in aid of construction) + City taxes + depreciation + interest expenses + debt cost amortization +/- Rate Stabilization Account transfers + accrued and other non-cash expenses. Under the City charter, City taxes are payable after payment of debt service. The 2002 loss on the Tacoma Project is excluded from the coverage calculation as an extraordinary non-operations expense.

Source: Seattle Public Utilities

The Water System has been designed and maintained to require a minimum of pumping, and does not rely on outside sources to meet water demand. Productivity improvements and reallocation of resources have allowed the Water System to manage an increasing work load related to environmental, water quality and governance issues with modest increases in operating and maintenance expenses over the last five years. However, during the last five years SPU has greatly expanded the size of its CIP and has raised rates to support these investments.

Operating revenues are generated primarily from wholesale and retail water sales. From 1999 to 2003, revenue increased by 50 percent, all of which was attributable to rate increases as there was no demand growth during this period. See "Water Rates."

The Water System is currently managing a significant plan of additions, including operating cost increases due to new facilities. Debt service coverage levels have been below policy targets for the last four years in order to provide a stable path of water rate increases and avoid rate shocks. Low demand in response to the 2001 drought and the continuance of drought-related conservation habits contributed to reduced coverage levels in 2001 and 2002. However, cash and net income targets were met during this period. Adopted rate increases effective September 16, 2002, and January 1, 2004, were designed to achieve financial performance targets in 2003 and 2004, even after deposits of \$2.5 million to the Rate Stabilization Account each year. Demand modeling conducted since September 2002 resulted in the somewhat lower projections of water sales and the reduced financial performance shown in this section.

Operations costs of the Water System are increasing because of new treatment facilities. Activation of the new Tolt River treatment plant in 2001 increased operations costs by about \$2.3 million that year. The budgeted costs for the Tolt River treatment plant in 2005 are \$2.6 million. A new facility began treating water from the Cedar River source in 2004. Operations costs for Cedar River treatment are expected to be \$900,000 in 2004 and \$2.5 million in 2005, and to increase at the rate of inflation thereafter. SPU is not subject to unanticipated increases in water purchase costs as its own supplies of water are sufficient to meet demand in this period. With the exception of the project-related operations cost increases above, operating expenses are expected to increase with the rate of inflation.

THE CITY OF SEATTLE

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City of Seattle, Washington, is the largest city in the Pacific Northwest and is the county seat of King County (the "County"). The City's elected officials include a mayor, nine City Council members and a city attorney. These officials are elected at large to four-year terms. The City provides four utility services funded by rates and charges: electricity, water, drainage and wastewater, and solid waste.

Financial Management

City financial management functions are provided by the Department of Finance and the Department of Executive Administration. Dwight D. Dively is the Director of Finance. Mr. Dively is a graduate of Rose-Hulman Institute of Technology, holds a master's degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

Accounting. The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor's Office, Division of Municipal Corporations, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Department of Finance maintains general supervision over the financial affairs of the City.

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial

condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the Auditor's examinations are required to be filed in the office of the State Auditor and in the Department of Finance. The City's Comprehensive Annual Financial Report may be obtained from the Department of Finance by calling (206) 684-8300.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the Department of Finance pursuant to State statute (Chapter 35.32A RCW). The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is from January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt the budget at least 30 days before the beginning of the next fiscal year.

Investments. The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees' Retirement System, and some debt issuance proceeds that are administered by trustee service providers.

All cash-related transactions for the City, including its utilities, are administered by the Treasury Division of the Department of Executive Administration. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division in the following securities:

- (i) U.S. Treasury and agency issues;
- (ii) bankers' acceptances sold on the secondary market;
- (iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved Master Repurchase Agreement with selected primary dealers; and
- (iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and Department of Executive Administration policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting about the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Examiner.

As of July 31, 2004, the combined investment portfolios of the City totaled \$614.4 million at book value. The City's cash pool is constituted solely of City funds. The City does not invest any of its funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. The year-to-date yield on the City's consolidated pool of investments as of July 31, 2004, was 2.3 percent. As of July 31, 2004, the average maturity date of the portfolio was May 26, 2006. Approximately 16.5 percent, or \$101.4 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

U.S. Government and Agency Securities	76.7%
Repurchase Agreements	8.8
Federal Farm Credit Bank	8.2
Commercial Paper	4.1
Federal Discount Notes	2.3

Interfund Loans. City ordinances authorize the Director of Finance to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

Risk Management

In 2004 the City purchased an excess liability insurance policy to address general, automobile, professional, public official and other exposures. The policy has limits of \$25 million above a \$5 million self-insured retention for each occurrence. The City also purchased all risk property insurance policies that provide \$500 million in limits above a \$500,000 deductible (for most buildings) with \$100 million in earthquake and flood limits and \$500 million in terrorism limits, with boiler and machinery, builders risk, fine art, and electronic data processing coverage endorsements. Hydroelectric projects owned by the City are not covered by the property or liability policies.

Some risks are also insured for fiduciary and crime liability, contractors' equipment, transportation, inland marine, railroad protective liability, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, notaries public and pension exposures.

Pension System

Nearly all permanent non-uniformed City employees participate in the Seattle City Employees' Retirement System (the "Plan"), a single employer public employee retirement system. The payroll for City employees covered by the Plan for the year ended December 31, 2003, was \$426.0 million; total City payroll was \$660.3 million. Participating City employees are required to contribute 8.03 percent of their annual base salary to the Plan, which is matched by a comparable City contribution. Combined employee and employer contributions to the Plan totaled approximately \$70 million for the year ending December 31, 2003. As of January 1, 2004, the Plan was estimated to be 85.9 percent funded.

Labor Relations

The City has 33 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. The City's contract with the Seattle Police Officers Guild expired on December 31, 2002, and negotiations for a successor contract are underway. The contracts with all other City unions, other than the Seattle Police Management Association (whose contract expires December 31, 2005), expire between December 31, 2004, and January 31, 2005, and negotiations for successor agreements will begin in fall 2004.

INITIATIVE AND REFERENDUM

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the Legislature and then, if not enacted, to the voters) and require the Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following

enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws. The Washington State Constitution may not be amended by initiative.

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several state-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and fee initiative measures continue to be filed, but it cannot be predicted whether any more such initiatives might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, whether they ultimately would become law.

Under the City Charter, Seattle voters may initiate City Charter amendments and local legislation, including modifications to existing legislation, and through referendum may prevent legislation passed by the City Council from becoming law.

LEGAL AND TAX INFORMATION

Litigation

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City’s compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation’s adjusted current earnings (including any

tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Original Issue Premium

The Bonds have been sold at prices reflecting original issue premium. An amount equal to the excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Bond will offset a like amount of qualified stated interest on such Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Legislation (the "Undertaking") for the benefit of holders of the Bonds, as follows.

Annual Financial Information. The City will provide or cause to be provided to each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule ("NRMSIR") and to a state information depository, if one is established in the State of Washington and recognized by the SEC (the "SID"), annual financial information and operating data of the type included in this Official Statement with respect to the Water System as generally described below ("annual financial information"):

- (i) annual financial statements of the Water System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law; which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;
- (ii) a statement of authorized, issued and outstanding bonded debt secured by Net Revenue of the Water System;
- (iii) debt service coverage ratios;
- (iv) summary operating statistics for the Water System, including population served, water sales revenue and billed water use; and
- (v) current water rates.

Annual financial information described above will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as permitted or required by State law, commencing with the City's fiscal year ending December 31, 2003. The annual information may be provided in a single or in multiple documents, and may be incorporated by reference from other documents, including official statements of debt issues with respect to which the City is an obligated person as defined by the Rule, which documents have been filed with each NRMSIR and the SID. If the document incorporated is a "final official statement" (as defined by the Rule) with respect to

which the City is an obligated person, it must be available from the Municipal Securities Rulemaking Board (“MSRB”).

The City also will provide or cause to be provided to each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial information on or before the date specified above.

Material Events. The City further will provide or cause to be provided to each NRMSIR or the MSRB, and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of holders of the Bonds;
- (viii) Bond calls (other than scheduled mandatory redemption of Term Bonds);
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

For purposes of this section, “Continuing Disclosure Undertaking,” the term “holders of the Bonds” will have the meaning intended for such term under the Rule.

Amendment of Undertaking. The Undertaking may be amended without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID, or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and to the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City’s obligations under the Undertaking will terminate upon the legal defeasance, prior redemption or payment in full of all of the then outstanding Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the City (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with the federal securities laws to the effect that those portions of the Rule which require the City to comply with the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) so notifies the SID and either the MSRB or each then existing NRMSIR of such termination.

Remedy for Failure to Comply with Undertaking. If the City fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure.

No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default with respect to the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary and appropriate to compel the City or other obligated person to comply with the

Undertaking. The Undertaking will inure to the benefit of the City and any holder of the Bonds, and will not inure to the benefit of or create any rights in any other person.

Other Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City on and after July 3, 1995, subject to the Rule. The City is in compliance with all such undertakings.

OTHER BOND INFORMATION

Bond Insurance

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix G for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Bond Registrar or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Bond Registrar or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Bond Registrar or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Bond Registrar payment of the insured amounts due on such Bonds, less any amount held by the Bond Registrar for the payment of such insured amounts and legally available therefor.

MBIA. MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in

the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under this heading and in Appendix F—Debt Service Reserve Fund Surety Bond and Appendix G—Municipal Bond Insurance Policy Specimen. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information. The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (i) the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, and (ii) the Company’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, and June 30, 2004) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2004, MBIA had admitted assets of \$10.5 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA. Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA “AAA.”

Fitch Ratings rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Ratings on the Bonds

As noted on the cover page of this Official Statement, the Bonds have been rated "Aaa" and "AAA" by Moody's and S&P, respectively, with the condition that upon delivery of the Bonds, the Municipal Bond Insurance Policy will be issued by MBIA. The Bonds have been assigned underlying ratings of "Aa2" and "AA" by Moody's and S&P, respectively. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Purchaser of the Bonds

The Bonds are being purchased by Citigroup Global Markets, Inc. (the "Purchaser") at a price of \$88,820,985.20. The Bonds will be reoffered at the prices or yields set forth on the cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

Official Statement

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU and the Water System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

By: /s/
Dwight D. Dively
Director of Finance

APPENDIX A
ORDINANCE

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ORDINANCE _____

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds for the purposes of paying part of the cost of carrying out that system or plan, refunding a portion of the City's outstanding water system revenue bonds, providing a bond reserve and paying the costs of issuing and selling the bonds authorized herein; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and creating certain accounts of the City relating to those bonds.

WHEREAS, The City of Seattle (the "City") owns and operates a municipal water system (the "Municipal Water System"); and

WHEREAS, the City needs to acquire and construct certain additions or betterments to or extensions of the Municipal Water System described in the system or plan adopted by this ordinance (the "Plan of Additions"); and

WHEREAS, pursuant to Ordinance 118512 and Resolution 29553 (the "1997 Bond Legislation") this City issued its Water System Revenue Bonds, 1997 (the "1997 Bonds") payable from and having a charge and lien upon the Net Revenue of the Municipal Water System prior and superior to all other charges whatsoever; and

WHEREAS, the City reserved the right to redeem the 1997 Bonds maturing on and after August 1, 2008 (the "1997 Callable Bonds"), prior to their stated maturity dates, at any time on or after August 1, 2007, as a whole or in part, at the redemption prices set forth in the 1997 Bond Legislation; and

WHEREAS, pursuant to Ordinance 119457 and Resolution 29973 (the "1999A Bond Legislation") the City issued its Water System Revenue Bonds, 1999 (the "1999A Bonds"); and

WHEREAS, the City reserved the right to redeem the 1999A Bonds maturing on and after March 1, 2010 (the "1999A Callable Bonds"), prior to their stated maturity dates, at any time on or after March 1, 2009, as a whole or in part, at the redemption price set forth in the 1999A Bond Legislation; and

WHEREAS, pursuant to Ordinance 119649 and Resolution 30057 (the "1999B Bond Legislation") the City issued its Water System Revenue Bonds, 1999, Series B (the "1999B Bonds"); and

WHEREAS, the City reserved the right to redeem the 1999B Bonds maturing on and after July 1, 2010 (the "1999B Callable Bonds"), prior to their stated maturity dates, at any time on or after July 1, 2009, as a whole or in part, at the redemption prices set forth in the 1999B Bond Legislation; and

WHEREAS, by Section 24 of Ordinance 118512, the City reserved the right to issue revenue bonds and other obligations having a charge and lien upon the Net Revenue of the Municipal Water System on a parity with the charge and lien of the 1997 Bonds ("Parity Bonds") upon compliance with certain conditions described therein; and

WHEREAS, the City has determined that it may issue Parity Bonds to pay part of the cost of carrying out the Plan of Additions, to refund all or a portion of the 1997 Callable Bonds,

the 1999A Callable Bonds and the 1999B Callable Bonds, and to provide a reserve for and pay the costs of issuing and selling those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Definitions. As used in this ordinance and for the purposes of this ordinance the following words shall have the following meanings:

“Accreted Value” means:

(1) with respect to any Capital Appreciation Bonds, as of the time of calculation, the sum of the amount representing the initial principal amount of such Capital Appreciation Bonds as set forth in the applicable Parity Bond Authorizing Ordinance plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or

(2) with respect to original issue discount bonds under the Code, as of the time of calculation, the amount representing the initial public offering price of such original issue discount bonds plus the amount of the discounted principal which has accreted since the date of issue, determined in accordance with the provisions of the applicable Parity Bond Authorizing Ordinance.

“Adjusted Annual Debt Service” for any fiscal year means Annual Debt Service minus (1) an amount equal to ULID Assessments due in that year and not delinquent, (2) an amount equal to earnings from investments in the Reserve Subaccount and (3) Annual Debt Service provided for by Parity Bond proceeds.

“Adjusted Gross Revenue of the Municipal Water System” or **“Adjusted Gross Revenue”** means Gross Revenue of the Municipal Water System plus withdrawals from the Rate Stabilization Account and minus (1) ULID Assessments, (2) earnings from investments in the Reserve Subaccount and (3) deposits into the Rate Stabilization Account.

“Adjusted Net Revenue of the Municipal Water System” or **“Adjusted Net Revenue”** means Adjusted Gross Revenue less Operation and Maintenance Expenses.

1 **“Annual Debt Service”** means, for any fiscal year of the City, all amounts required to be
2 paid in respect of interest on and principal of Parity Bonds and Payment Agreement Payments in
3 respect of Parity Payment Agreements, subject to the following:

4 (i) **Debt Service on Term Bonds.** For purposes of calculating debt service on
5 Term Bonds, only the scheduled mandatory redemption amounts payable in respect of principal
6 of Term Bonds shall be taken into account in any fiscal year prior to the Term Bond Maturity
7 Year, and only the principal amount scheduled to remain outstanding after payment of all prior
8 mandatory redemption amounts shall be taken into account in the Term Bond Maturity Year;

9 (ii) **Interest on Parity Bonds.** For purposes of determining compliance with
10 the Coverage Requirement, the Reserve Requirement and conditions for the issuance of Future
11 Parity Bonds,

12 (A) **Generally.** Except as otherwise provided by subparagraph (ii)(B)
13 with respect to Variable Interest Rate Bonds and by subparagraph (ii)(C) with respect to Parity
14 Bonds with respect to which a Payment Agreement is in force, interest on any issue of Parity
15 Bonds shall be calculated based on the actual amount of accrued, accreted or otherwise
16 accumulated interest that is payable in respect of that issue taken as a whole, at the rate or rates
17 set forth in the Parity Bond Authorizing Ordinance;

18 (B) **Interest on Variable Interest Rate Bonds.** The amount of interest
19 deemed to be payable on any issue of Variable Interest Rate Bonds shall be calculated on the
20 assumption that the interest rate on those bonds would be equal to the rate (the “assumed RBI-
21 based rate”) that is ninety percent (90%) of the average RBI during the fiscal quarter preceding
22 the quarter in which the calculation is made;

23 (C) **Interest on Parity Bonds With Respect to Which a Payment**
24 **Agreement is in Force.** Debt service on Parity Bonds with respect to which a Payment
25 Agreement is in force shall be based on the net economic effect on the City expected to be
26 produced by the terms of the Parity Bonds and the terms of the Payment Agreement, including
27 but not limited to the effects that (i) Parity Bonds that would, but for a Payment Agreement, be
28

1 treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as
2 obligations bearing interest at a fixed interest rate, and (ii) Parity Bonds that would, but for a
3 Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead
4 shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the
5 amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment
6 Agreement is in force shall be an amount equal to the amount of interest that would be payable at
7 the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment
8 Agreement Receipts. For the purposes of calculating as nearly as practicable Payment
9 Agreement Receipts and Payment Agreement Payments under a Payment Agreement, the
10 following assumptions shall be made:

11 (1) Counterparty Obligated to Pay Actual Variable Interest on
12 Variable Interest Rate Bonds. If any Payment Agreement obligates a Qualified Counterparty to
13 make payments to the City based on the actual Variable Interest Rate on Parity Bonds that
14 would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds and obligates
15 the City to make payments to the Qualified Counterparty based on a fixed rate, payments by the
16 City to the Qualified Counterparty shall be assumed to be made at the fixed rate specified by the
17 Payment Agreement and payments by the Qualified Counterparty to the City shall be assumed to
18 be made at the actual Variable Interest Rate on such Parity Bonds, without regard to the
19 occurrence of any event that, under the provisions of the Payment Agreement, would permit the
20 Qualified Counterparty to make payments on any basis other than the actual Variable Interest
21 Rate on such Parity Bonds, and the Parity Bond Authorizing Ordinance shall set forth a debt
22 service schedule for those Parity Bonds based on that assumption;

23 (2) Variable Interest Rate Bonds and Payment Agreements
24 Having the Same Variable Rate Component. If both a Payment Agreement and related Parity
25 Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds
26 include a variable rate payment component that is required to be calculated on the same basis
27 (including, without limitation, on the basis of the same variable rate index), it shall be assumed
28

that the variable rate payment component payable pursuant to the Payment Agreement is equal in amount to the variable rate interest component payable on those Parity Bonds;

(3) Variable Interest Rate Bonds and Payment Agreements

Having Different Variable Rate Interest Components. If a Payment Agreement obligates either the City or the Qualified Counterparty to make payments of a variable rate interest component on a basis that is different (including, without limitation, on a different variable rate index) from the basis that is required to be used to calculate interest on the Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds, it shall be assumed:

(a) City Obligated to Make Payments Based on Variable Rate Index. If payments by the City under the Payment Agreement are to be based on a variable rate index and payments by the Qualified Counterparty are to be based on a fixed rate, that payments by the City to the Qualified Counterparty will be based upon an interest rate equal to the assumed RBI-based rate, and that payments by the Qualified Counterparty to the City will be based on the fixed rate specified by the Payment Agreement; and

(b) City Obligated to Make Payments Based on Fixed Rate. If payments by the City under the Payment Agreement are to be based on a fixed rate and payments by the Qualified Counterparty are to be based on a variable rate index, that payments by the City to the Qualified Counterparty will be based on an interest rate equal to the rate (the “assumed fixed payor rate”) that is one hundred and five percent (105%) of the fixed rate specified by the Payment Agreement, and that payments by the Qualified Counterparty to the City will be based on a rate equal to the actual Variable Interest Rate on the Variable Interest Rate Bonds;

(4) Certain Payment Agreements May be Disregarded.

Notwithstanding the provisions of subparagraphs (ii)(C)(1), (2) and (3) of this definition, the City shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of ten (10) years or less;

1 (D) Debt Service on Parity Payment Agreements. No additional debt
2 service shall be taken into account with respect to a Parity Payment Agreement for any period
3 during which Payment Agreement Payments on that Parity Payment Agreement are taken into
4 account in determining Annual Debt Service on related Parity Bonds under subparagraph (ii)(C)
5 of this definition. However, for any period during which Payment Agreement Payments are not
6 taken into account in calculating Annual Debt Service on any outstanding Parity Bonds because
7 the Parity Payment Agreement is not then related to any outstanding Parity Bonds, debt service
8 on that Parity Payment Agreement shall be taken into account by assuming:

9 (1) City Obligated to Make Payments Based on Fixed Rate. If
10 the City is obligated to make Payment Agreement Payments based on a fixed rate and the
11 Qualified Counterparty is obligated to make payments based on a variable rate index, that
12 payments by the City will be based on the assumed fixed payor rate, and that payments by the
13 Qualified Counterparty will be based on a rate equal to the average rate determined by the
14 variable rate index specified by the Parity Payment Agreement during the fiscal quarter
15 preceding the quarter in which the calculation is made, and

16 (2) City Obligated to Make Payments Based on Variable Rate
17 Index. If the City is obligated to make Payment Agreement Payments based on a variable rate
18 index and the Qualified Counterparty is obligated to make payment based on a fixed rate, that
19 payments by the City will be based on a rate equal to the average rate determined by the variable
20 rate index specified by the Parity Payment Agreement during the fiscal quarter preceding the
21 quarter in which the calculation is made, and that the Qualified Counterparty will make
22 payments based on the fixed rate specified by the Parity Payment Agreement; and

23 (E) Balloon Bonds. For purposes of calculating debt service on any
24 Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds, together with
25 interest thereon at a rate equal to the assumed RBI-based rate, will be amortized in equal annual
26 installments over a term of thirty (30) years.

“Average Annual Debt Service” means the sum of the Annual Debt Service for the remaining years to the last scheduled maturity of the applicable issue or issues of Parity Bonds divided by the number of those years.

“Balloon Bonds” means any series of Parity Bonds designated as Balloon Bonds in the applicable Parity Bond Authorizing Ordinance.

“Bond Account” means that special account of the City known as the Water Revenue Bond Account created by Ordinance 116705 in the Water Fund of the City for the payment of the principal of, mandatory sinking fund payments, Payment Agreement Payments, premiums, (if any), and interest on the Parity Bonds.

“Bond Counsel” means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by the City for any purpose under this ordinance applicable to the use of that term.

“Bond Insurance” means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds.

“Bond Insurer” means any provider of Bond Insurance approved by the City Council by ordinance or resolution.

“Bond Register” means the books or records maintained by the Bond Registrar on which are recorded the names and addresses of the Registered Owners of each of the Bonds.

“Bond Registrar” or **“Registrar”** :means the Fiscal Agency of the State of Washington, or any successor bond registrar selected by the City, whose duties include the registration and authentication of the Bonds, maintenance of the Bond Register, effecting transfer of ownership of the Bonds, and paying the principal of and premium, if any, and interest on the Bonds.

“Bond Resolution” means one or more resolutions of the City Council adopted pursuant to this ordinance and confirming the sale and final terms of the Bonds.

“**Bonds**” means the bonds authorized to be issued pursuant to, under the authority of and for the purposes provided in this ordinance.

1 City, as that Capital Improvement Program may be amended, updated, supplemented or replaced
2 from time to time.

3 **“City”** means The City of Seattle, Washington.

4 **“City Council”** means the City Council of the City, as duly and regularly constituted
5 from time to time.

6 **“Code”** means the Internal Revenue Code of 1986, as amended, and applicable rules and
7 regulations promulgated thereunder.

8 **“Construction Account”** means the Water System Construction Subaccount, 2004,
9 created by this ordinance in the Water System Construction Account, which account was
10 previously created in the Water Fund.

11 **“Contract Resource Obligation”** means an obligation of the City, designated as a
12 Contract Resource Obligation and entered into pursuant to Section 23 of this ordinance, to make
13 payments for water supply, transmission or other commodity or service to another person or
14 entity (including without limitation a separate utility system created pursuant to Section 22 of
15 this ordinance).

16 **“Coverage Requirement”** in any fiscal year of the City means an amount of Adjusted
17 Net Revenue of the Municipal Water System equal to at least 1.25 times the Adjusted Annual
18 Debt Service that year on all Parity Bonds.

19 **“Director of Finance”** means the Director of the Department of Finance of the City, or
20 any other officer who succeeds to substantially all of the responsibilities of that office specified
21 in this ordinance.

22 **“DTC”** means The Depository Trust Company, New York, New York, as initial
23 Securities Depository for the Bonds.

24 **“Event of Default”** shall have the meaning assigned to that term in Section 28(a) of this
25 ordinance.

26 **“Fiscal Agency”** means either of the fiscal agencies of the State of Washington located
27 in Seattle, Washington, and New York, New York, or any other paying agent/registrar of the
28

City, as the same may be designated in the Bond Resolution or otherwise designated from time to time.

“Future Parity Bonds” means all revenue bonds and other obligations (including Parity Payment Agreements) of the City issued or entered into after the date of the issuance of the Bonds and then outstanding, the payment of which constitutes a charge and lien on the Net Revenue of the Municipal Water System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Account to pay and secure the payment of the principal of and interest on the Parity Bonds, including the Bonds.

“Government Obligations” means those government obligations defined by RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

“Gross Revenue of the Municipal Water System” or **“Gross Revenue”** means in any fiscal year of the City all of the revenues of the Municipal Water System, including but not limited to revenue from the sale or transmission of water; the sale, lease or furnishing of other commodities, services, properties or facilities; the imposition of connection, capital improvement or other charges; ULID Assessments; net receipts from Payment Agreements; and earnings from the investment of money in the Water Fund. However, Gross Revenue shall not include earnings of a separate utility system that may be acquired or constructed by the City pursuant to Section 22 of this ordinance; principal proceeds of Parity Bonds or other borrowings; or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund Municipal Water System obligations (until commingled with other earnings and revenues of the Municipal Water System defined as Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code.

“Independent Consulting Engineer” means either (1) an independent licensed professional engineer experienced in the design, construction or operation of municipal utilities of comparable size and character to the Municipal Water System, or (2) an independent certified public accountant or other professional consultant experienced in the development of rates and charges for municipal utilities of comparable size and character to the Municipal Water System.

“Letter of Representations” means the Letter of Representations relating to the Bonds to be delivered by the City to DTC.

“Maximum Annual Debt Service” means at the time of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current year or any future year on the Parity Bonds.

“Municipal Water System” means the water system of the City as it now exists, and all additions thereto and betterments and extensions thereof at any time made, together with any utility systems of the City hereinafter combined with the Municipal Water System. The Municipal Water System shall not include any water supply or other utility system service or other facilities that may be created, acquired or constructed by the City as a separate utility system as provided in Section 22 of this ordinance.

“Net Revenue of the Municipal Water System” or **“Net Revenue”** means the Gross Revenue less Operation and Maintenance Expenses.

“Operation and Maintenance Expenses” means all expenses incurred by the City in causing the Municipal Water System of the City to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessments or other payments for insurance, if any, on the Municipal Water System; payments into pension funds; State-imposed taxes; amounts due under Contract Resource Obligations (but only at the times described in Section 23 of this ordinance); payments made to any other person or entity for the receipt of water supply or transmission or other commodity or service; and payments with respect to any other expenses of the Municipal Water System that are properly treated as operation and maintenance expenses under generally accepted accounting principles applicable to municipal corporations. Operation and Maintenance Expenses does not include any depreciation or taxes levied or imposed by the City, or payments to the City in lieu of taxes, or capital additions or capital replacements to the Municipal Water System.

“Outstanding Parity Bonds” means the then outstanding 1997 Bonds, 1998 Bonds, 1999A, 1999B Bonds, 2001 Bonds and 2003 Bonds.

“Parity Bonds” means the Outstanding Parity Bonds, the Bonds, and any Future Parity Bonds.

“Parity Bond Authorizing Ordinance” means the ordinance and/or resolution of the City that authorizes the issuance and sale and establishes the terms of a particular issue of Parity Bonds and other matters relating to the same plan of finance.

“Parity Payment Agreement” means a Payment Agreement under which the City’s payment obligations are expressly stated to constitute a charge and lien on the Net Revenue of the Municipal Water System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Account to pay interest on Parity Bonds.

“Payment Agreement” means a written agreement, for the purpose of managing or reducing the City’s exposure to fluctuations or levels of interest rates or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by the City and a Qualified Counterparty as authorized by any applicable laws of the State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes, bond anticipation notes, commercial paper, or other obligations for borrowed money, or lease, installment purchase or other similar financing agreements or certificates of participation therein, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

“Payment Agreement Payments” means the amounts periodically required to be paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

“Payment Agreement Receipts” means the amounts periodically required to be paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

“Plan of Additions” means, collectively, the CIP and the Water System Plan, as they may be modified hereafter as described herein.

“Principal and Interest Subaccount” means the account of that name created in the Bond Account for the payment of the principal of and interest and mandatory redemption requirements, if any, on the Parity Bonds.

1 **“Qualified Counterparty”** means a party (other than the City or a party related to the
2 City) who is the other party to a Payment Agreement and (1)(a) whose senior debt obligations
3 are rated in one of the three highest rating categories of each of the Rating Agencies (without
4 regard to any gradations within a rating category) or (b) whose obligations under the Payment
5 Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or
6 other institution which has been assigned a credit rating in one of the two highest rating
7 categories of each of the Rating Agencies, and (2) who is otherwise qualified to act as the other
8 party to a Payment Agreement under any applicable laws of the State.

9 **“Rate Stabilization Account”** means the account of that name created in the Water Fund
10 pursuant to Ordinance 116705 and redesignated for accounting purposes as the Revenue
11 Stabilization Subfund of the Water Fund pursuant to Ordinance 120875.

12 **“Rating Agencies”** means Moody’s Investors Service, Inc., and Standard & Poor’s
13 Ratings Services, a Division of The McGraw-Hill Companies, Inc., and their successors, and any
14 other nationally-recognized securities rating agency or agencies rating Parity Bonds at the
15 request of the City.

16 **“RBI”** means The Bond Buyer Revenue Bond Index or comparable index, or, if no
17 comparable index can be obtained, eighty percent (80%) of the interest rate for actively traded
18 thirty (30) year United States Treasury obligations.

19 **“Refunding Candidates”** means, collectively, the 1997 Callable Bonds, the 1999A
20 Callable Bonds and the 1999B Callable Bonds.

21 **“Refunded Bonds”** means all or that portion of the Refunding Candidates included in a
22 Refunding Plan.

23 **“Refunded Bond Legislation”** means, collectively, the ordinances and resolutions
24 pursuant to which the Refunding Candidates were issued.

25 **“Refunding Plan”** means, for any series of Bonds:

1 (a) the deposit with the Refunding Trustee of a portion of the proceeds of the
2 Bonds which, together with other money deposited with the Refunding Trustee, is sufficient to
3 acquire the Acquired Obligations (as defined in the Bond Resolution);

4 (b) the acquisition by the Refunding Trustee of the Acquired Obligations;

5 (c) the payment of the principal of and interest on the Refunded Bonds when
6 due up to and including the date set forth in the Bond Resolution, and the call, payment and
7 redemption on that date of all or a portion of the then-outstanding Refunded Bonds, at the prices
8 set forth in the Bond Resolution; and

9 (d) the payment of the costs of issuing the Bonds and the costs of carrying out
10 the foregoing elements of the Refunding Plan.

11 **“Refunding Trust Agreement”** means the Refunding Trust Agreement between the City
12 and a Refunding Trustee relating to a particular series of Bonds.

13 **“Refunding Trustee”** means the trustee or escrow agent, or any successor trustee or
14 escrow agent, with respect to a particular series of Bonds, designated by the Director of Finance.

15 **“Registered Owner”** means the person shown on the Bond Register as the owner of one
16 or more Bonds.

17 **“Reserve Insurance”** means any bond insurance, letter of credit, guaranty, surety bond
18 or similar credit enhancement device obtained by the City equal to part or all of the Reserve
19 Requirement for any Parity Bonds which is issued by an institution which has been assigned a
20 credit rating at the time of issuance of the device in one of the two highest rating categories of
21 each of the Rating Agencies.

22 **“Reserve Requirement”** means as of any date the lesser of Maximum Annual Debt
23 Service or one hundred twenty-five percent (125%) of Average Annual Debt Service on the
24 Parity Bonds.

25 **“Reserve Subaccount”** means the account of that name created in the Bond Account for
26 the purpose of securing the payment of the principal of and interest on the Parity Bonds.

“Securities Depository” means any one of the following registered securities depositories which has been designated by the City: (i) DTC; (ii) Midwest Securities Trust Company, Chicago, Illinois; (iii) Philadelphia Depository Trust Company, Philadelphia, Pennsylvania; or (iv) such other securities depositories as the City may designate in a certificate of the City delivered to the Bond Registrar.

“State” means the State of Washington.

“State Auditor” means the office of the Auditor of the State or such other department or office of the State authorized and directed by State law to make audits.

“Term Bond Maturity Year” means any calendar year in which Term Bonds are scheduled to mature.

“Term Bonds” means those Parity Bonds designated as such in the applicable Parity Bond Authorizing Ordinance.

“ULID” means a utility local improvement district.

“ULID Assessments” means all assessments levied and collected in a ULID of the City created for the acquisition or construction of additions to and betterments and extensions of the Municipal Water System if (and only if) those assessments are pledged to be paid into the Bond Account, not including any prepaid assessments paid into a construction fund or account. ULID Assessments shall include installments thereof and any interest or penalties thereon.

“Undertaking” means the City’s undertaking in the Bond Resolution to provide certain disclosure as provided by Section 25.

“Variable Interest Rate” means any variable interest rate or rates to be borne by any Parity Bonds. The method of computing such a variable interest rate shall be as specified in the applicable Parity Bond Authorizing Ordinance (including a Bond Resolution), which ordinance or resolution also shall specify either (1) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (2) the time or times upon which any change in such variable interest rate shall become effective. A Variable Interest Rate may, without limitation, be based on the

1 interest rate on certain bonds or may be based on interest rate, currency, commodity or other
2 indexes.

3 **“Variable Interest Rate Bonds”** means, for any period of time, any Parity Bonds that
4 bear a Variable Interest Rate during that period, except that Parity Bonds shall not be treated as
5 Variable Interest Rate Bonds if the net economic effect of interest rates on particular Parity
6 Bonds of an issue and interest rates on other Parity Bonds of the same issue, as set forth in the
7 applicable Parity Bond Authorizing Ordinance, or the net economic effect of a Payment
8 Agreement with respect to particular Parity Bonds, in either case is to produce obligations that
9 bear interest at a fixed interest rate; and Parity Bonds with respect to which a Payment
10 Agreement is in force shall be treated as Variable Interest Rate Bonds if the net economic effect
11 of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

12 **“Water Fund”** means the fund of that name into which is paid the Gross Revenue of the
13 Municipal Water System.

14 **“Water System Plan”** means the long range water system plan known as the Updated
15 Seattle Comprehensive Regional Water Plan adopted by the City in Ordinance 116869, together
16 with the 2001 Water System Plan Update adopted by the City in Ordinance 120633, as that
17 Water System Plan may be amended, updated, supplemented or replaced from time to time.

18 **Section 2. Adoption of Plan of Additions.** The CIP and the Water System Plan
19 constitute a system or plan of additions to or betterments or extensions of the Municipal Water
20 System (the “Plan of Additions” and each element thereof an “Addition”). To the extent not
21 previously specified, adopted and ordered to be carried out by the City by ordinance, the City
22 specifies, adopts and orders to be carried out the Plan of Additions as generally provided for in
23 the Water System Plan and the CIP. The estimated cost of the Plan of Additions, as near as may
24 be determined, is declared to be Five Hundred Forty-Two Million Six Hundred Ninety-Nine
25 Thousand Dollars (\$542,699,000), of which One Hundred One Million Dollars (\$101,000,000) is
26 expected to be financed from the proceeds of the Bonds.

1 The Plan of Additions shall include any amendments, updates, supplements or
2 replacements to the CIP or the Water System Plan, all of which automatically shall constitute
3 amendments to the Plan of Additions. The Plan of Additions also may be modified, without
4 amending the CIP or the Water System Plan, to include other improvements if the City
5 determines by ordinance that those amendments or other improvements constitute a system or
6 plan of additions to or betterments or extensions of the Municipal Water System.

7 The Plan of Additions includes the purchase and installation of all materials, supplies,
8 appliances, equipment (including but not limited to data processing hardware and software and
9 conservation equipment) and facilities, the acquisition of all permits, franchises, property and
10 property rights, other capital assets and all engineering, consulting and other professional
11 services and studies (whether performed by the City or by other public or private entities)
12 necessary or convenient to carry out the Plan of Additions.

13 **Section 3. Authorization and Description of Bonds.** For the purpose of providing all
14 or a part of the money required to (1) pay part of the cost of carrying out the Plan of Additions,
15 (2) carry out the Refunding Plan, (3) provide for a reserve for the Bonds and (4) pay the costs of
16 issuing and selling the Bonds, the City shall issue and sell the Bonds in the aggregate principal
17 amount of not to exceed Three Hundred Fifty-Five Million Dollars (\$355,000,000). The Bonds
18 may be issued in one or more series, as determined in the Bond Resolution. The Bonds shall be
19 called "The City of Seattle Water System [and Refunding] Revenue Bonds, 2004"; may have
20 such different or further designation or designations as determined by the Bond Resolution or the
21 Director of Finance; shall be dated and shall mature on such dates specified in the Bond
22 Resolution; shall be dated as specified in the Bond Resolution; shall be in the denomination of
23 Five Thousand Dollars (\$5,000) or any integral multiple thereof within a single maturity or such
24 other denomination within a maturity provided by the Bond Resolution; shall be numbered
25 separately, in the manner and with any additional designation as the Bond Registrar deems
26 necessary for the purpose of identification; shall bear interest at the rate or rates (computed on
27 the basis of a 360-day year of twelve 30-day months) as shall be specified and approved by the

Bond Resolution, except that the net interest cost shall not exceed a weighted average of eight percent (8.0%) per annum, payable semiannually on such dates as are specified by the Bond Resolution. The Bonds shall mature on the dates and be subject to optional or mandatory redemption, open market purchase or defeasance on the terms and at the times specified in the Bond Resolution, except that the final maturity of the Bonds shall not be later than December 31, 2034. The Director of Finance may designate Term Bonds with mandatory redemption amounts, all to be provided by the Bond Resolution. The Director of Finance also may specify in Bond closing documents the respective amounts of each maturity of the Bonds allocated to paying the costs of carrying out the Plan of Additions.

Section 4. Bond Resolution. The City Council may adopt the Bond Resolution and in that resolution may provide for the matters described in this ordinance, including the manner of sale and delivery of and payment for the Bonds, the refunding of the Refunded Bonds, and such other matters that the City Council deems necessary and appropriate to carry out the purposes of this ordinance. Once adopted, the Bond Resolution shall be deemed a part of this ordinance as if set forth herein.

The Bond Resolution may provide for Bond Insurance or Reserve Insurance, and conditions or covenants relating thereto, including additional terms, conditions and covenants relating to the Bonds that are required by the Bond Insurer and are consistent with the provisions of this ordinance, including but not limited to restrictions on investments and requirements of notice to and consent of the Bond Insurer.

The Bond Resolution may approve and authorize the execution and delivery on behalf of the City of any agreements consistent with the provisions of this ordinance for which the City's approval is necessary or to which the City is a party and that are related or incidental to the initial issuance and sale of the Bonds, the establishment of the interest rate or rates on the Bonds, redemption of the Bonds, provision of Bond Insurance, payment agreements and similar agreements.

1 The City Council may determine and specify by the Bond Resolution the amount, if any,
2 from the proceeds of or accrued interest on the Bonds to be deposited into specified funds,
3 subfunds, accounts and subaccounts. In the absence of such a determination and specification in
4 the Bond Resolution, the Director of Finance may make such determination and specification.

5 **Section 5. Registration and Transfer or Exchange of Bonds.** The Bonds shall be
6 issued only in registered form as to both principal and interest and recorded on the Bond
7 Register. The Bond Register shall contain the name and mailing address of the Registered
8 Owner of each Bond and the principal amount and number of each of the Bonds held by each
9 Registered Owner.

10 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized
11 denomination of an equal aggregate principal amount and of the same series, interest rate and
12 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and
13 surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the
14 Registered Owner or transferee. The Bond Registrar shall not be obligated to exchange or
15 transfer any Bond during the fifteen (15) days preceding any principal or interest payment or
16 redemption date (or other record date established by the Bond Resolution).

17 The City appoints DTC as initial Securities Depository for the Bonds. For so long as
18 DTC is the Securities Depository for the Bonds, DTC or its nominee shall be deemed to be the
19 Registered Owner of the Bonds for all purposes hereunder, and all references in this ordinance or
20 the Bond Resolution to the Registered Owners of the Bonds shall mean DTC or its nominee and
21 shall not mean the owners of any beneficial interests in the Bonds. Payments of principal of,
22 premium, if any, and interest on all outstanding Bonds registered in the name of the nominee of
23 DTC, or its registered assign, shall be made as provided in the Letter of Representations.

24 Bonds executed and delivered in fully immobilized form shall be executed and delivered
25 in the form of one fully-registered immobilized certificate for each series and maturity of the
26 Bonds representing the aggregate principal amount of the Bonds of that series and maturity,
27 which Bonds shall (except as provided below for the discontinuation or substitution of Securities
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1 Depository) be registered in the name of the Securities Depository or its nominee. For so long as
2 DTC serves as Securities Depository for the Bonds, the Bonds shall be registered in the name of
3 Cede & Co., as nominee of DTC; however, if DTC shall request that the Bonds be registered in
4 the name of a different nominee, the Bond Registrar shall exchange all or any portion of the
5 Bonds for an equal aggregate principal amount of Bonds registered in the name of such other
6 nominee or nominees of DTC. No person other than DTC or its nominee shall be entitled to
7 receive from the City or the Bond Registrar any Bond or any other evidence of ownership of the
8 Bonds, or any right to receive any payment in respect thereof, unless DTC or its nominee shall
9 transfer record ownership of all or any portion of the Bonds on the Bond Register, in connection
10 with discontinuing the book entry system as provided below or otherwise.

11 For so long as the Bonds are registered in the name of DTC or any nominee thereof, all
12 payments of the principal of, or premium, if any, or interest with respect to the Bonds shall be
13 made to DTC or its nominee in immediately available funds on the dates provided for such
14 payments under this ordinance and the Bond Resolution and at such times and in the manner
15 provided in the Letter of Representations. Each such payment to DTC or its nominee shall be
16 valid and effective to fully discharge all liability of the City or the Bond Registrar with respect to
17 the principal of, premium, if any, or interest with respect to the Bonds to the extent of the sum or
18 sums so paid. In the event of the redemption of less than all of the Bonds of any series and
19 maturity, the Bond Registrar shall not require surrender by DTC or its nominee of the Bonds so
20 redeemed, and DTC or its nominee may retain such Bonds and make an appropriate notation
21 thereon as to the amount of such partial redemption. DTC shall deliver to the Bond Registrar,
22 upon request, a written confirmation of such partial redemption. The records maintained by the
23 Bond Registrar shall be conclusive as to the amount of the Bonds of such series and maturity that
24 have been redeemed.

25 All transfers of beneficial ownership interests in Bonds registered in the name of DTC or
26 its nominee shall be effected by the procedures of DTC's participants and/or indirect participants
27 for recording and transferring the ownership of beneficial interests in bonds.

1 The City and the Bond Registrar may treat DTC (or its nominee) as the sole and
2 exclusive Registered Owner of the Bonds registered in its name for the purposes of payment of
3 the principal of, premium, if any, or interest with respect to those Bonds, selecting Bonds or
4 portions thereof to be redeemed, giving any notice permitted or required to be given to
5 Registered Owners under this ordinance or the Bond Resolution, registering the transfer of
6 Bonds, obtaining any consent or other action to be taken by Registered Owners of Bonds and for
7 all other purposes whatsoever; and the City and the Bond Registrar shall not be affected by any
8 notice to the contrary. The City and the Bond Registrar shall not have any responsibility or
9 obligation to any direct or indirect DTC participant, any person claiming a beneficial ownership
10 interest in the Bonds under or through DTC or any such participant, or any other person which is
11 not shown on the Bond Register as being a Registered Owner of Bonds, with respect to: (i) the
12 Bonds; (ii) any records maintained by DTC or any such participant; (iii) the payment by DTC or
13 any such direct or indirect participant of any amount in respect of the principal of, premium, if
14 any, or interest with respect to the Bonds; (iv) any notice which is permitted or required to be
15 given to Registered Owners of Bonds under this ordinance or the Bond Resolution; (v) the
16 selection by DTC or any such direct or indirect participant of any person to receive payment in
17 the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by
18 DTC as Registered Owner of the Bonds.

19 For so long as the Bonds are registered in the name of DTC or any nominee thereof, all
20 notices required or permitted to be given to the Registered Owners of such Bonds under this
21 ordinance or the Bond Resolution shall be given to DTC as provided in the Letter of
22 Representations.

23 In connection with any notice or other communication to be provided to Registered
24 Owners pursuant to this ordinance or the Bond Resolution by the City or the Bond Registrar with
25 respect to any consent or other action to be taken by Registered Owners of the Bonds, DTC shall
26 consider the date of receipt of notice requesting such consent or other action as the record date
27 for such consent or other action; however, the City or the Bond Registrar may establish a special
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1 record date for such consent or other action and shall give DTC notice of such special record
2 date not less than fifteen (15) calendar days in advance of such special record date to the extent
3 practical.

4 Any successor Bond Registrar, in its written acceptance of its duties under this ordinance
5 and the Bond Resolution, shall agree to take any actions necessary from time to time to comply
6 with the requirements of any applicable Letter of Representations.

7 The book-entry system for registration of the ownership of the Bonds delivered in fully
8 immobilized form may be discontinued at any time if: (i) after notice to the City and the Bond
9 Registrar, DTC determines to resign as Securities Depository for the Bonds; or (ii) after notice to
10 DTC and the Bond Registrar, the City determines that a continuation of the system of book-entry
11 transfers through DTC (or through a successor Securities Depository) is not in the best interests
12 of the City. In each of such events (unless, in the case described in clause (i) above, the City
13 appoints a successor Securities Depository), the Bonds shall be delivered in registered certificate
14 form to such persons, and in such maturities and principal amounts, as may be designated by
15 DTC, but without any liability on the part of the City or the Bond Registrar for the accuracy of
16 such designation. Whenever DTC requests the City and the Bond Registrar to do so, or
17 whenever the City requests DTC and the Bond Registrar to do so after the determination by the
18 City to replace DTC with a successor Securities Depository, the City and the Bond Registrar
19 shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for
20 another Securities Depository to maintain custody of certificates evidencing the Bonds.

21 **Section 6. Mutilated, Lost, Stolen and Destroyed Bonds.** In case any Bonds issued
22 hereunder shall become mutilated or be destroyed, stolen or lost, the City may, if not then
23 prohibited or otherwise required by law, cause to be executed and delivered a new Bond of like
24 amount, interest rate, maturity date, series and tenor in exchange and substitution for and upon
25 cancellation of such mutilated Bonds, or in lieu of and in substitution for such destroyed, stolen
26 or lost Bonds, upon payment by the Registered Owner thereof of the reasonable expenses and
27 charges of the City and the Bond Registrar in connection therewith, and in the case of a Bond

1 destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to it that
2 such Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing the City
3 and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed,
4 stolen or lost Bond already has matured or been called for redemption in accordance with its
5 terms it shall not be necessary to issue a new Bond prior to payment. If the provisions of State
6 law at any time differ from the provisions of this Section 6 with respect to the requirements or
7 procedures for replacing or otherwise handling mutilated, lost, stolen or destroyed Bonds, then
8 the provisions of State law shall prevail.

9 **Section 7. Payment of Bond Principal and Interest.** Principal of, premium, if any, and
10 interest on the Bonds shall be payable in lawful money of the United States of America. Interest
11 on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest
12 payment date to the Registered Owners at the addresses appearing on the Bond Register on the
13 fifteenth (15th) day of the month preceding the interest payment date (or other record date
14 established by the Bond Resolution) (the "Record Date") or, at the request of a Registered
15 Owner of One Million Dollars (\$1,000,000) or more in aggregate principal amount of Bonds, by
16 wire transfer to an account in the United States designated in writing by such Registered Owner
17 prior to the Record Date. Principal of and premium, if any, on the Bonds shall be payable upon
18 presentation and surrender of the Bonds by the Registered Owners at either of the principal
19 corporate trust office or offices of the Bond Registrar at the option of the Registered Owners.
20 Notwithstanding the foregoing, payment of any Bonds registered in the name of DTC or its
21 nominee shall be made in accordance with the Letter of Representations.

22 The Bonds shall be payable solely out of the Bond Account and shall not be general
23 obligations of the City.

24 **Section 8. Redemption and Open Market Purchase of Bonds.**

25 (a) **Optional Redemption.** All or some of the Bonds may be subject to
26 redemption at the option of the City at the times and on the terms set forth in the Bond
27 Resolution.

1 **(b) Mandatory Redemption.** The City shall redeem any Term Bonds, if not
2 redeemed under the optional redemption provisions set forth in the Bond Resolution or
3 purchased in the open market under the provisions set forth below, by lot (or in such other
4 manner as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the
5 years and principal amounts as set forth in the Bond Resolution.

6 If the City redeems Term Bonds under the optional redemption provisions set forth in the
7 Bond Resolution or purchases Term Bonds in the open market as set forth below, the Term
8 Bonds so redeemed or purchased (irrespective of their redemption or purchase price) shall be
9 credited at the par amount thereof against the remaining mandatory redemption requirements in a
10 manner to be determined by the Director of Finance or, if no such determination is made, on a
11 pro-rata basis.

12 **(c) Partial Redemption.** Whenever less than all of the Bonds of a single
13 maturity are to be redeemed, the Bond Registrar shall select the Bonds or portions thereof to be
14 redeemed from the Bonds of that maturity by lot, or in such other manner as the Bond Registrar
15 shall determine, except that, for so long as the Bonds are registered in the name of DTC or its
16 nominee, DTC shall select the Bonds or portions thereof to be redeemed in accordance with the
17 Letter of Representations. In no event shall any Bond be outstanding in a principal amount that
18 is not an authorized denomination.

19 Portions of the principal amount of any Bond, in integral amounts of Five Thousand
20 Dollars (\$5,000), may be redeemed, unless otherwise provided in the Bond Resolution. If less
21 than all of the principal amount of any Bond is redeemed, upon surrender of that Bond at either
22 of the principal offices of the Bond Registrar, there shall be issued to the Registered Owner,
23 without charge therefor, a new Bond (or Bonds, at the option of the Registered Owner) of the
24 same series, maturity and interest rate in any of the denominations authorized by the Bond
25 Resolution in the aggregate total principal amount remaining unredeemed.

26 **(d) Open Market Purchase.** The City reserves the right and option to
27 purchase any or all of the Bonds in the open market at any time at any price acceptable to the
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1 City plus accrued interest to the date of purchase. The principal amount of Term Bonds
2 purchased pursuant to this Section 8 shall be credited at the par amount thereof against the next
3 mandatory redemption requirement, or as otherwise directed by the Director of Finance.

4 (e) **Bonds to be Canceled.** All Bonds purchased or redeemed under this
5 Section 8 shall be canceled.

6 **Section 9. Notice of Redemption.** The City shall cause notice of any intended
7 redemption of Bonds to be given not less than thirty (30) nor more than sixty (60) days prior to
8 the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any
9 Bond to be redeemed at the address appearing on the Bond Register at the time the Bond
10 Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been
11 fulfilled when notice has been mailed as so provided, whether or not it is actually received by the
12 Registered Owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on
13 the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented
14 pursuant to the call. In addition, the redemption notice shall be mailed by the Bond Registrar
15 within the same period, postage prepaid, to each of the Rating Agencies at their offices in New
16 York, New York, to any Bond Insurer for the Bonds, and to such other persons and with such
17 additional information as the Director of Finance shall determine or as specified in the Bond
18 Resolution, but these additional mailings shall not be a condition precedent to the redemption of
19 Bonds.

20 **Section 10. Failure to Redeem Bonds.** If any Bond is not redeemed when properly
21 presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at
22 the same rate provided in the Bond from and after its maturity or call date until that Bond,
23 principal of, premium, if any and interest, is paid in full or until sufficient money for its payment
24 in full is on deposit in the Bond Account and the Bond has been called for payment by giving
25 notice of that call to the Registered Owner of each of those unpaid Bonds.

26 **Section 11. Form and Execution of Bonds.** The Bonds shall be typed, photocopied,
27 printed or lithographed on good bond paper in a form consistent with the provisions of this
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1 ordinance, the Bond Resolution and State law, shall be signed by the Mayor and Director of
2 Finance, either or both of whose signatures may be manual or in facsimile, and the seal of the
3 City or a facsimile reproduction thereof shall be impressed or printed thereon.

4 Only Bonds bearing a Certificate of Authentication in substantially the following form,
5 manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to
6 the benefits of this ordinance:

7 **CERTIFICATE OF AUTHENTICATION**

8 This Bond is one of the fully registered The City of Seattle, Washington,
9 Water System [and Refunding] Revenue Bonds, 2004, described in the Bond
Ordinance.

10 WASHINGTON STATE FISCAL AGENCY
11 Bond Registrar

12 By: _____
13 Authorized Signer

14 The authorized signing of a Certificate of Authentication shall be conclusive evidence that the
15 Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the
16 benefits of this ordinance.

17 If any officer whose facsimile signature appears on the Bonds ceases to be an officer of
18 the City authorized to sign bonds before the Bonds bearing his or her facsimile signature are
19 authenticated or delivered by the Bond Registrar or issued by the City, those Bonds nevertheless
20 may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall
21 be as binding on the City as though that person had continued to be an officer of the City
22 authorized to sign bonds. Any Bond also may be signed on behalf of the City by any person
23 who, on the actual date of signing of the Bond, is an officer of the City authorized to sign bonds,
24 although he or she did not hold the required office on the date of issuance of the Bonds.

25 **Section 12. Bond Registrar.** The Bond Registrar shall keep, or cause to be kept, at its
26 principal corporate trust office, sufficient books for the registration and transfer of the Bonds
27 which shall at all times be open to inspection by the City. The Bond Registrar is authorized, on
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1 behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with
2 the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds
3 and to carry out all of the Bond Registrar's powers and duties under this ordinance and SMC
4 Chapter 5.10 establishing a system of registration for the City's bonds and obligations, as that
5 chapter now exists or may be amended.

6 The City reserves the right in its discretion to appoint special paying agents, registrars or
7 trustees in connection with the payment of some or all of the principal of or interest on the
8 Bonds. If a new Bond Registrar is appointed by the City, notice of the name and address of the
9 new Bond Registrar shall be mailed to the Registered Owners of the Bonds. The notice may be
10 mailed together with the next interest payment due on the Bonds, but, to the extent practicable,
11 shall be mailed not less than fifteen (15) days prior to a maturity date of the principal or a
12 mandatory redemption date of any Bond.

13 The Bond Registrar shall be responsible for its representations contained in the Bond
14 Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become the
15 Registered Owner of Bonds with the same rights it would have if it were not the Bond Registrar
16 and, to the extent permitted by law, may act as depository for and permit any of its officers or
17 directors to act as members of, or in any other capacity with respect to, any committee formed to
18 protect the rights of the Registered Owners of the Bonds.

19 **Section 13. Bond Account.** Ordinance 116705 created the Water Revenue Bond
20 Account (the "Bond Account") in the Water Fund and further divided the Bond Account into two
21 subaccounts: the Principal and Interest Subaccount and the Reserve Subaccount. So long as any
22 Parity Bonds are outstanding, the City shall set aside and pay into the Bond Account all ULID
23 Assessments on their collection (except for ULID Assessments deposited in a construction
24 account) and, out of the Net Revenue, certain fixed amounts without regard to any fixed
25 proportion, namely:

1 (a) Into the Principal and Interest Subaccount (i) upon receipt thereof,
2 the accrued interest, if any, received by the City from the purchaser of the Bonds,
3 and (ii) on or before each interest or principal and interest payment date of any
4 Parity Bonds at least an amount which, together with other money on deposit
5 therein, will be sufficient to pay the interest, or principal and interest, to become
6 due and payable on the Parity Bonds on that payment date, including any Parity
7 Bonds subject to mandatory redemption on that date, and net payments due on
8 Parity Payment Agreements; and

9 (b) Into the Reserve Subaccount, in approximately equal annual
10 payments, amounts necessary to fund the Reserve Requirement within five years
11 from the date of issuance of such Parity Bonds after taking into account the
12 capitalization of all or any part of the Reserve Requirement. The City may
13 provide all or any part of the Reserve Requirement through Reserve Insurance,
14 and the amount available to be drawn upon under that Reserve Insurance shall be
15 credited against the Reserve Requirement, subject to the following:

16 The Reserve Insurance shall not be cancelable on less than three (3) years' notice.
17 On receipt of a notice of cancellation of any Reserve Insurance or upon notice
18 that the entity providing the Reserve Insurance no longer meets the requirements
19 specified herein, the City shall substitute Reserve Insurance in the amount
20 required to make up the deficiency created in the Reserve Subaccount or in the
21 alternative shall create a special account in the Water Fund and deposit therein, on
22 or before the twenty-fifth (25th) day of each of the thirty-six (36) succeeding
23 calendar months (commencing with the twenty-fifth (25th) day of the calendar
24 month next following the date of the notice) one thirty-sixth (1/36th) of the
25 amount sufficient, together with other money and investments on deposit in the
26 Reserve Subaccount, to equal the Reserve Requirement in effect as of the date the
27 cancellation or disqualification of the entity becomes effective. The required
28 amounts shall be deposited in that special account from money in the Water Fund
after making provision for payment of Operation and Maintenance Expenses and
for required payments into the Bond Account. Amounts on deposit in that special
account shall not be available to pay debt service on Parity Bonds or for any other
purpose of the City, and shall be transferred to the Reserve Subaccount on the
effective date of any cancellation of a Reserve Insurance to make up all or part of
the deficiency caused thereby. Amounts in that special account or in the Reserve
Subaccount may be transferred back to the Water Fund and used for any purpose
if and when qualifying Reserve Insurance is obtained.

21 Except for withdrawals therefrom and payments over time as authorized herein, the
22 Reserve Subaccount shall be maintained at the Reserve Requirement, as it is adjusted from time
23 to time, at all times so long as any Parity Bonds are outstanding. For the purpose of determining
24 the amount credited to the Reserve Subaccount, obligations in which money in the Reserve
25 Subaccount has been invested shall be valued at the greater of cost or accreted value.

26 In the event that there shall be a deficiency in the Principal and Interest Subaccount to
27 meet maturing installments of either principal or interest or mandatory redemption requirements,
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1 as the case may be, that deficiency shall be made up from the Reserve Subaccount by the
2 withdrawal of cash therefrom for that purpose. Any deficiency created in the Reserve
3 Subaccount by reason of any such withdrawal shall within twelve (12) months be made up from
4 ULID Assessments and Net Revenue available after making necessary provisions for the
5 required payments into the Principal and Interest Subaccount.

6 The money in the Reserve Subaccount may be applied to the payment of the last
7 outstanding bonds payable out of the Bond Account, except that any money in the Reserve
8 Subaccount (including investment earnings) in excess of the Reserve Requirement may be
9 withdrawn and deposited in the Principal and Interest Subaccount and spent for the purpose of
10 retiring Parity Bonds or may be deposited in any other fund or account and spent for any other
11 lawful Municipal Water System purpose. When the total amount in the Bond Account
12 (including investment earnings) shall equal the total amount of principal and interest for all
13 Parity Bonds to the last maturity thereof, no further payment need be made into the Bond
14 Account. The City may provide for the purchase, redemption or defeasance of any Parity Bonds by
15 the use of money on deposit in any subaccount in the Bond Account as long as the money
16 remaining in those subaccounts is sufficient to satisfy the required deposits in those subaccounts
17 for the remaining Parity Bonds.

18 All money in the Bond Account may be kept in cash or invested in legal investments
19 maturing, for investments in the Principal and Interest Subaccount, not later than the dates when
20 the funds are required for the payment of principal of or interest on the Parity Bonds and, for
21 investments in the Reserve Subaccount, maturing (or subject to redemption, or repurchase and
22 redemption, at the option of the City) on a date not later than fifteen (15) years from the date of
23 investment.

24 Earnings from investments in the Principal and Interest Subaccount shall be deposited in
25 that account. Earnings from investments in the Reserve Subaccount shall be deposited in that
26 account. Notwithstanding the provisions for the deposit of earnings, any earnings that are
27 subject to federal arbitrage rebate requirements may be withdrawn from the Bond Account for

deposit into a separate fund or account created for the purpose of compliance with those rebate requirements.

The City may create sinking fund accounts or other accounts in the Bond Account for the payment or securing the payment of Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the owners of such Parity Bonds.

Section 14. Construction Account. There has been created in the Water Fund an account known as the Water System Construction Account, within which account is created a subaccount to be known as the Water System Construction Subaccount, 2004 (the “Construction Account”). The principal proceeds of the sale of the Bonds remaining after (1) the deposit of accrued interest on the Bonds, if any, into the Principal and Interest Subaccount, and (2) the deposit of any proceeds as determined by the Bond Resolution into the Reserve Subaccount, shall be deposited into the Construction Account to be used for the purpose of paying part of the costs of carrying out the Plan of Additions and to pay for the costs of issuance of the Bonds. Until needed to pay such costs, the City may invest principal proceeds and interest thereon temporarily in any legal investment, and the investment earnings may, as determined by the Director of Finance, be retained in the Construction Account and be spent for the purposes of that fund or deposited in the Bond Account.

Section 15. Rate Stabilization Account. The Rate Stabilization Account has been created in the Water Fund. The City may at any time, as determined by the City and as consistent with Section 19 of this ordinance, deposit in the Rate Stabilization Account Gross Revenue and any other money received by the Municipal Water System and available to be used therefor. The City may withdraw any or all of the money from the Rate Stabilization Account for inclusion in the Adjusted Gross Revenue for any fiscal year of the City. Such deposits or withdrawals may be made up to and including the date ninety (90) days after the end of the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue.

1 No deposit of Gross Revenue shall be made into the Rate Stabilization Account to the
2 extent that such deposit would prevent the City from meeting the Coverage Requirement in the
3 relevant fiscal year.

4 **Section 16. Finding as to Sufficiency of Gross Revenue.** A series of Bonds will be
5 issued only if the City Council finds and determines by the Bond Resolution (i) that the Gross
6 Revenue and benefits to be derived from the operation and maintenance of the Municipal Water
7 System of the City at the rates to be charged from time to time for water and other services and
8 commodities from the Municipal Water System consistent with Section 18(b) hereof, will be
9 sufficient to meet all Operation and Maintenance Expenses and to permit the setting aside into
10 the Bond Account out of the Gross Revenue of amounts sufficient to pay the principal of and
11 interest on the Bonds and any mandatory redemption requirements when due, and (ii) that in
12 fixing the amounts to be paid into the Bond Account the City has exercised due regard for
13 Operation and Maintenance Expenses, and has not bound and obligated itself to set aside and pay
14 into the Bond Account a greater amount or proportion of the Gross Revenue than in the
15 judgment of the City will be available over and above the Operation and Maintenance Expenses.

16 **Section 17. Pledge of Net Revenue and Lien Position.** The Net Revenue of the
17 Municipal Water System and all money and investments held in the Bond Account, the Rate
18 Stabilization Account and the Construction Account (except money and investments held in a
19 separate fund or account created for the purpose of compliance with rebate requirements under
20 the Code), is pledged to the payment of the Parity Bonds and to make payments into the Reserve
21 Subaccount required by this ordinance, the Bond Resolution and Parity Bond Authorizing
22 Ordinances, and this pledge shall constitute a lien and charge upon the Net Revenue prior and
23 superior to any other charges whatsoever.

24 **Section 18. Parity Bond Covenants.** The City covenants and agrees with the owner of
25 each Bond at any time outstanding, as follows:

26 (a) **Operation and Maintenance.** It will at all times maintain, preserve and
27 keep the properties of the Municipal Water System in good repair, working order and condition,
28

1 will make all necessary and proper additions, betterments, renewals and repairs thereto, and
2 improvements, replacements and extensions thereof so that at all times the business carried on in
3 connection therewith will be properly and advantageously conducted, and will at all times
4 operate or cause to be operated the properties of the Municipal Water System and the business in
5 connection therewith in an efficient manner and at a reasonable cost.

6 (b) **Establishment and Collection of Rates and Charges.** It will establish,
7 maintain and collect rates and charges for services and facilities provided by the Municipal
8 Water System which will be fair and equitable, and will adjust those rates and charges from time
9 to time so that:

10 (1) The Gross Revenue will be sufficient to (i) pay all Operation and
11 Maintenance Expenses, (ii) pay when due all amounts that the City is obligated to pay into the
12 Bond Account and the subaccounts therein, and (iii) pay all taxes, assessments or other
13 governmental charges lawfully imposed on the Municipal Water System or the revenue
14 therefrom or payments in lieu thereof and any and all other amounts which the City may now or
15 hereafter become obligated to pay from the Gross Revenue by law or contract; and

16 (2) The Adjusted Net Revenue of the Municipal Water System in each
17 fiscal year will be at least equal to the Coverage Requirement; and

18 (3) Except to aid the poor or infirm and for fire-fighting purposes, it
19 will not furnish or supply or permit the furnishing or supplying of any service or facility in
20 connection with the operation of the Municipal Water System free of charge to any person, firm
21 or corporation, public or private.

22 The failure of the City to comply with subparagraphs (1) and (2) of this paragraph (b)
23 shall not be an Event of Default if the City promptly retains an Independent Consulting Engineer
24 to recommend to the City Council adjustments in the rates of the Municipal Water System
25 necessary to meet the requirements of those subparagraphs and if the City Council adopts the
26 recommended modifications within one hundred eighty (180) days of the date the failure became
27 known to the City Council.

(c) **Sale, Transfer or Disposition of the Municipal Water System.** It will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the Municipal Water System or any real or personal property comprising a part of the Municipal Water System only upon approval by ordinance and only consistent with one or more of the following:

(1) The City in its discretion may carry out such a sale, transfer or disposition (each, as used in this subparagraph, a “transfer”) if the facilities or property transferred are not material to the operation of the Municipal Water System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Municipal Water System or are no longer necessary, material or useful to the operation of the Municipal Water System; or

(2) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred under this subparagraph (2) in any fiscal year comprises no more than three percent (3%) of the total assets of the Municipal Water System; or

(3) The City in its discretion may carry out such a transfer if the City receives from the transferee an amount equal to the fair market value of the portion of the Municipal Water System transferred. As used in this subparagraph, “fair market value” means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus. The proceeds of the transfer shall be used (i) to promptly redeem, or irrevocably set aside for the redemption of, Parity Bonds, and/or (ii) to provide for part of the cost of additions to and betterments and extensions of the Municipal Water System. Before any such transfer under this subparagraph (3), the City must obtain a certificate of an Independent Consulting Engineer to the effect that in his or her professional opinion, upon such transfer and the use of proceeds of the transfer as proposed by the City, the remaining Municipal Water System will retain its

operational integrity and the Adjusted Net Revenue of the Municipal Water System will be at least equal to the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur, taking into account, (w) the reduction in revenue resulting from the transfer; (x) the use of any proceeds of the transfer for the redemption of Parity Bonds, (y) the Independent Consulting Engineer's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Municipal Water System financed in part by the proposed portion of the proceeds of the transfer, and (z) any other adjustment permitted in the preparation of a certificate under Section 20(f)(2) of this ordinance. Before such a transfer, the City also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer.

The amount required to be paid to the City may be reduced by any "equity credits" or similar amounts based on prior capital contributions or other payments to the City which, under any contract between the City and the transferee, are allowed as a setoff against the transfer price that would otherwise be payable to the City.

(d) Liens Upon the Municipal Water System. Except as otherwise provided in this ordinance, it will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the Gross Revenue or any part thereof, prior or superior to the lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

(e) Books and Accounts. It will keep proper books, records and accounts with respect to the operations, income and expenditures of the Municipal Water System in accordance with generally accepted accounting practices relating to the municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited on an annual basis by the State Auditor (or, if such audit is not made

1 by the State Auditor within two hundred seventy (270) days after the close of any fiscal year of
2 the City, by a certified public accountant selected by the City). It will prepare annual financial
3 and operating statements as soon as practicable after the close of each fiscal year showing in
4 reasonable detail the financial condition of the Municipal Water System as of the close of the
5 previous year, and the income and expenses for such year, including the amounts paid into the
6 Bond Account and into any and all special funds or accounts created pursuant to the provisions
7 of this ordinance, the status of all funds and accounts as of the end of such year, and the amounts
8 expended for maintenance, renewals, replacements and capital additions to the Municipal Water
9 System. Such statements shall be sent to the owner of any Parity Bonds upon written request
10 therefor being made to the City. The City may charge a reasonable cost for providing such
11 financial statements.

12 (f) **Collection of Delinquent Accounts.** On at least an annual basis, it will
13 determine all accounts that are delinquent and will take such actions as the City determines are
14 reasonably necessary to enforce payment of those delinquent accounts.

15 (g) **Maintenance of Insurance.** It at all times will carry fire and extended
16 coverage, public liability and property damage and such other forms of insurance with
17 responsible insurers and with policies payable to the City on such of the buildings, equipment,
18 works, plants, facilities and properties of the Municipal Water System as are ordinarily carried
19 by municipal or privately owned utilities engaged in the operation of like systems, and against
20 such claims for damages as are ordinarily carried by municipal or privately owned utilities
21 engaged in the operation of like systems, or it will self-insure or will participate in an insurance
22 pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the
23 Municipal Water System and the owners of the Parity Bonds against loss.

24 (h) **Condemnation Awards and Insurance Proceeds.** If the City receives
25 any condemnation awards or proceeds of an insurance policy in connection with any loss of or
26 damage to any property of the Municipal Water System, it shall apply the condemnation award
27 or insurance proceeds, in the City's sole discretion, either (i) to the cost of replacing or repairing
28

1 the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity Bonds, or
2 (iii) to the cost of improvements to the Municipal Water System.

3 **Section 19. Flow of Funds.** All ULID Assessments shall be paid into the Bond Account
4 as provided by this ordinance. The Gross Revenue of the Municipal Water System shall be used
5 for the following purposes only and shall be applied in the following order of priority:

6 (a) To pay the Operation and Maintenance Expenses;

7 (b) To pay interest on Parity Bonds and net payments on Parity
8 Payment Agreements when due;

9 (c) To pay the principal of Parity Bonds as it comes due at maturity or
10 as the principal is required to be paid pursuant to mandatory redemption
11 requirements applicable to Term Bonds, and to make payments due under any
reimbursement agreement with a Bond Insurer which agreement requires those
payments to be treated on a parity of lien with the Parity Bonds;

12 (d) To make all payments required to be made into the Reserve
13 Subaccount, all payments required to be made under any agreement relating to the
14 provision of Reserve Insurance, and payments due under any reimbursement
15 agreement with a Bond Insurer which agreement requires those payments to be
treated on a parity of lien with the payments required to be made into the Reserve
Subaccount;

16 (e) To make all payments required to be made into any revenue bond,
17 note, warrant or other revenue obligation redemption fund, debt service account
18 or reserve account created to pay or secure the payment of the principal of and
19 interest on any revenue bonds, notes, warrants or other obligations of the City
having a lien upon the revenue of the Municipal Water System junior and inferior
to the lien thereon for the payment of the principal of and interest on the Parity
Bonds; and

20 (f) To retire by redemption or purchase in the open market any
21 outstanding revenue bonds or other revenue obligations of the Municipal Water
22 System, to make necessary additional betterments, improvements and repairs to or
23 extensions and replacements of the Municipal Water System, to make deposits
into the Rate Stabilization Account, or for any other lawful Municipal Water
System purposes.

24 The City may transfer any money from any funds or accounts of the Municipal Water
25 System legally available therefor, except bond redemption funds, refunding escrow funds or
26 defeasance funds, to meet the required payments to be made into the Bond Account.
27

1 **Section 20. Provisions for Future Parity Bonds.** The City reserves the right to issue
2 Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the Municipal
3 Water System or to refund a portion of the Parity Bonds if the following conditions are met and
4 complied with at the time of the issuance of those Future Parity Bonds or entering into the Parity
5 Payment Agreement:

6 (a) There shall be no deficiency in the Bond Account and no Event of
7 Default with respect to any Parity Bonds shall have occurred and be continuing.

8 (b) The Parity Bond Authorizing Ordinance shall provide that all
9 assessments and interest thereon that may be levied in any ULID created for the
10 purpose of paying, in whole or in part, the principal of and interest on those
11 Future Parity Bonds, shall be paid directly into the Bond Account, except for any
12 prepaid assessments permitted by law to be paid into a construction fund or
13 account.

14 (c) The Parity Bond Authorizing Ordinance shall provide for the
15 payment of the principal thereof and interest thereon out of the Bond Account.

16 (d) The Parity Bond Authorizing Ordinance shall provide for the
17 payment of amounts into the Bond Account to meet mandatory redemption
18 requirements applicable to any Term Bonds to be issued and for regular payments
19 to be made for the payment of the principal of such Term Bonds on or before their
20 maturity, or, as an alternative, the mandatory redemption of those Term Bonds
21 prior to their maturity date from money in the Principal and Interest Subaccount.

22 (e) The Parity Bond Authorizing Ordinance shall provide for the
23 deposit into the Reserve Subaccount of (i) an amount, if any, necessary to fund
24 the Reserve Requirement upon the issuance of those Future Parity Bonds from
25 Future Parity Bond proceeds or other money legally available, or (ii) Reserve
26 Insurance or an amount plus Reserve Insurance necessary to fund the Reserve
27 Requirement upon the issuance of those Future Parity Bonds, or (iii) amounts
28 necessary to fund the Reserve Requirement from ULID Assessments and
Adjusted Net Revenue within five years from the date of issuance of those Future
Parity Bonds, in five approximately equal annual payments.

 (f) There shall be on file with the City either:

 (1) a certificate of the Director of Finance demonstrating that
during any twelve consecutive calendar months out of the immediately
preceding twenty-four (24) calendar months Adjusted Net Revenue was at
least equal to the Coverage Requirement for all Parity Bonds plus the
Future Parity Bonds proposed to be issued (and assuming that the debt
service of the proposed Future Parity Bonds for that twelve-month period
was the Average Annual Debt Service for those proposed bonds); or

 (2) a certificate of both the Director of Finance and the
Director of Seattle Public Utilities (who has succeeded to substantially all
of the responsibilities of the Superintendent of the Municipal Water

System), or any officer who succeeds to substantially all of the responsibilities of either office, that in their opinion the Adjusted Net Revenue for the five fiscal years next following the earlier of (A) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (B) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Adjusted Net Revenue further adjusted as provided in paragraphs (i) through (iv) below, will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:

(i) Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue approved by ordinance or resolution;

(ii) Net revenue from customers of the Municipal Water System who have become customers during the twelve (12) consecutive month period or thereafter, and their estimate of net revenue from any customers to be connected to the Municipal Water System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;

(iii) Their estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Bonds (or additional Parity Bonds expected to be issued during the five-year period); and

(iv) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue of the Municipal Water System.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding Parity Bonds, no such coverage certification shall be required if the Adjusted Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than Five Thousand Dollars (\$5,000) over the Adjusted Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds.

Nothing contained herein shall prevent the City from issuing Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or revenue bonds that are a charge or lien upon the Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from pledging the payment of ULID assessments into a bond redemption fund created for the payment of the principal of and interest on those junior lien bonds as long as

1 such ULID assessments are levied for improvements constructed from the proceeds of those
2 junior lien bonds.

3 **Section 21. Reimbursement Obligations.** If the City elects to meet the Reserve
4 Requirement or any portion thereof through the use of Reserve Insurance or elects to secure any
5 issue of Parity Bonds through the use of Bond Insurance, the City may contract with the entity
6 providing such Reserve Insurance or Bond Insurance to the effect that the City's reimbursement
7 obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

8 If provided by the Bond Resolution, if the principal of, interest or mandatory redemption
9 requirements due on the Bonds is paid by a Bond Insurer pursuant to a Bond Insurance policy,
10 the Bonds shall not be considered paid by the City, and the covenants, agreements and other
11 obligations of the City to the Registered Owners shall continue to exist and the Bond Insurer
12 shall be subrogated to the rights of the Registered Owners.

13 **Section 22. Separate Utility Systems.** The City may create, acquire, construct, finance,
14 own and operate one or more additional systems for water supply, transmission or other
15 commodity or service. The revenue of that separate utility system shall not be included in the
16 Gross Revenue of the Municipal Water System and may be pledged to the payment of revenue
17 obligations issued to purchase, construct, condemn or otherwise acquire or expand the separate
18 utility system. Neither the Gross Revenue nor the Net Revenue of the Municipal Water System
19 shall be pledged by the City to the payment of any obligations of a separate utility system except
20 (1) as a Contract Resource Obligation upon compliance with Section 23 hereof and/or (2) with
21 respect to the Net Revenue, on a basis subordinate to the lien of the Parity Bonds on that Net
22 Revenue.

1 **Section 23. Contract Resource Obligations.** The City may at any time enter into one
2 or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of
3 water supply, transmission or other commodity or service relating to the Municipal Water
4 System. The City may determine that, and may agree under a Contract Resource Obligation to
5 provide that, all payments under that Contract Resource Obligation (including payments prior to
6 the time that water supply or transmission or other commodity or service is being provided, or
7 during a suspension or after termination of supply or service) shall be Operation and
8 Maintenance Expenses if the following requirements are met at the time such a Contract
9 Resource Obligation is entered into:

10 (a) No Event of Default has occurred and is continuing.

11 (b) There shall be on file a certificate of an Independent Consulting
12 Engineer stating that (i) the payments to be made by the City in connection with
13 the Contract Resource Obligation are reasonable for the supply or transmission
14 rendered; (ii) the source of any new supply, and any facilities to be constructed to
15 provide the supply or transmission, are sound from a water or other commodity
16 supply or transmission planning standpoint, are technically and economically
17 feasible in accordance with prudent utility practice, and are likely to provide
18 supply or transmission no later than a date set forth in the Independent Consulting
19 Engineer's certification; and (iii) the Adjusted Net Revenue (further adjusted by
20 the Independent Consulting Engineer's estimate of the payments to be made in
21 accordance with the Contract Resource Obligation) for the five fiscal years
22 following the year in which the Contract Resource Obligation is incurred, as such
23 Adjusted Net Revenue is estimated by the Independent Consulting Engineer in
24 accordance with the provisions of and adjustments permitted in [Section 23(f)(2)
25 of this ordinance, will be at least equal to the Coverage Requirement.

26 Payments required to be made under Contract Resource Obligations shall not be subject
27 to acceleration.

28 Nothing in this Section shall be deemed to prevent the City from entering into other
agreements for the acquisition of water supply, transmission or other commodity or service from
existing facilities and from treating those payments as Operation and Maintenance Expenses.
Nothing in this Section shall be deemed to prevent the City from entering into other agreements
for the acquisition of water supply, transmission or other commodity or service from facilities to

1 be constructed and from agreeing to make payments with respect thereto, such payments
2 constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

3 **Section 24. Preservation of Tax Exemption for Interest on Bonds.** The City
4 covenants that it will take all actions consistent with the terms of the Bonds, this ordinance and
5 the Bond Resolution reasonably within its power and necessary to prevent interest on the Bonds
6 from being included in gross income for federal income tax purposes and it will neither take any
7 action nor make or permit any use of the proceeds of the Bonds or other funds of the City treated
8 as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on
9 the Bonds to be included in gross income for federal income tax purposes.

10 The City has not been notified of any listing or proposed listing by the Internal Revenue
11 Service to the effect that the City is a bond issuer whose arbitrage certifications may not be
12 relied upon.

13 **Section 25. Continuing Disclosure.** The City shall undertake to provide for the benefit
14 of holders of the Bonds disclosure of certain financial information and operating data of the type
15 included in the final official statement for the Bonds, as well as disclosure of certain material
16 events respecting the Bonds, in the manner and to the extent required by United States Securities
17 and Exchange Commission Rule 15c2-12(b)(5). The particular terms of the Undertaking shall be
18 set forth in the Bond Resolution.

19 **Section 26. Advance Refunding or Defeasance of Bonds.** The City may issue advance
20 refunding bonds pursuant to the laws of the State or use money available from any other lawful
21 source to pay the principal of and interest on the Bonds, or such portion thereof included in a
22 refunding or defeasance plan, as the same become due and payable and to redeem and retire,
23 release, refund or defease the Bonds (the "Defeased Bonds") and to pay the costs of such
24 refunding or defeasance. In the event that money and/or Government Obligations sufficient in
25 amount, together with known earned income from the investments thereof, to redeem and retire,
26 release, refund or defease the defeased Bonds in accordance with their terms, are set aside
27 irrevocably in a special fund for and pledged irrevocably to such redemption, retirement or

1 defeasance (the “trust account”), then all right and interest of the owners of the defeased Bonds
2 in the covenants of this ordinance and in the Net Revenue and the funds and accounts pledged to
3 the payment of such defeased Bonds, other than the right to receive the funds so set aside and
4 pledged, thereafter shall cease and become void. Such owners thereafter shall have the right to
5 receive payment of the principal of and interest or redemption price on the defeased Bonds from
6 the trust account.

7 After the establishing and full funding of such a trust account, the City then may apply
8 any money in any other fund or account established for the payment or redemption of the
9 defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the
10 owners of any other Parity Bonds.

11 If the refunding plan provides that the defeased Bonds to be issued be secured by money
12 and/or Government Obligations pending the prior redemption of the defeased Bonds and if such
13 refunding plan also provides that certain money and/or Government Obligations are pledged
14 irrevocably for the prior redemption of the defeased Bonds included in that refunding plan, then
15 only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the
16 payment of which is not so secured by the refunding plan, shall be included in the computation
17 of the Coverage Requirement for the issuance of Future Parity Bonds and the annual
18 computation of the Coverage Requirement for determining compliance with the rate covenants.

19 **Section 27. Amendatory and Supplemental Ordinances.**

20 (a) This ordinance shall not be modified or amended in any respect subsequent to the
21 initial issuance of the Bonds, except as provided in and in accordance with and subject to the
22 provisions of this Section.

23 (b) The City, from time to time, and at any time, without the consent of or notice to
24 the owners of the Bonds, may pass supplemental or amendatory ordinances as follows:

25 (1) To cure any formal defect, omission, inconsistency or ambiguity in this
26 ordinance in a manner not adverse to the owner of any Parity Bond;

1 (2) To impose upon the Bond Registrar (with its consent) for the benefit of the
2 owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or
3 duties which may lawfully be granted, conferred or imposed and which are not contrary to or
4 inconsistent with this ordinance as therefore in effect;

5 (3) To add to the covenants and agreements of, and limitations and
6 restrictions upon, the City in this ordinance, other covenants, agreements, limitations and
7 restrictions to be observed by the City which are not contrary or inconsistent with this ordinance
8 as therefore in effect;

9 (4) To confirm, as further assurance, any pledge under, and the subjection to
10 any claim, lien or pledge created or to be created by this ordinance of any other money,
11 securities or funds;

12 (5) To authorize different denominations of the Bonds and to make correlative
13 amendments and modifications to this ordinance regarding exchangeability of Bonds of different
14 authorized denominations, redemptions of portions of Bonds of particular authorized
15 denominations and similar amendments and modifications of a technical nature;

16 (6) To modify, alter, amend or supplement this ordinance in any other respect
17 which is not materially adverse to the owners of the Parity Bonds and which does not involve a
18 change described in subsection (c) of this Section;

19 (7) Because of change in federal law or rulings, to maintain the exclusion
20 from gross income of the interest on the Bonds from federal income taxation; and

21 (8) To add to the covenants and agreements of, and limitations and
22 restrictions upon, the City in this ordinance, other covenants, agreements, limitations and
23 restrictions to be observed by the City which are requested by a Bond Insurer or provider of
24 Reserve Insurance and which are not materially adverse to the owners of the Parity Bonds.

25 Before the City shall adopt any such supplemental ordinance pursuant to this subsection
26 (b), there shall have been delivered to the City and the Bond Registrar an opinion of Bond
27 Counsel, stating that such supplemental ordinance is authorized or permitted by this ordinance

1 and, upon the execution and delivery thereof, will be valid and binding upon the City in
2 accordance with its terms and will not adversely affect the exclusion from gross income for
3 federal income tax purposes of interest on the Bonds.

4 (c) (1) Except for any supplemental ordinance entered into pursuant to
5 subsection (b) of this Section, subject to the terms and provisions contained in this subsection (c)
6 and not otherwise, Registered Owners of not less than sixty percent (60%) in aggregate principal
7 amount of the Parity Bonds shall have the right from time to time to consent to and approve the
8 passage by the City of any supplemental ordinance deemed necessary or desirable by the City for
9 the purpose of modifying, altering, amending, supplementing or rescinding, in any particular,
10 any of the terms or provisions contained in this ordinance; except that, unless approved in
11 writing by the Registered Owners of all Parity Bonds, nothing contained in this Section shall
12 permit, or be construed as permitting:

13 (i) A change in the times, amounts or currency of payment of
14 the principal of or interest on any outstanding Parity Bond, or a reduction
15 in the principal amount or redemption price of any outstanding Parity
16 Bond or a change in the redemption price of any outstanding Parity Bond
17 or a change in the method of determining the rate of interest thereon, or

18 (ii) A preference or priority of any Parity Bond or Bonds or
19 any other bond or bonds, or

20 (iii) A reduction in the aggregate principal amount of Parity
21 Bonds, the consent of the Registered Owners of which is required for any
22 such supplemental ordinance.

23 (2) If at any time the City shall pass any supplemental ordinance for any of
24 the purposes of this subsection (c), the Bond Registrar shall cause notice of the proposed
25 supplemental ordinance to be given by first-class United States mail to all Registered Owners of
26 the Parity Bonds, to any Bond Insurer, and to the Rating Agencies if the Bonds are rated by those
27 agencies. Such notice shall briefly set forth the nature of the proposed supplemental ordinance
28 and shall state that a copy thereof is on file at the office of the Bond Registrar for inspection by
all Registered Owners of the Parity Bonds.

1 (3) Within two years after the date of the mailing of such notice, the City may
2 adopt such supplemental ordinance in substantially the form described in such notice, but only if
3 there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of
4 the Registered Owners of the Parity Bonds, and (ii) an opinion of bond counsel stating that such
5 supplemental ordinance is authorized or permitted by this ordinance and, upon the execution and
6 delivery thereof, will be valid and binding upon the City in accordance with its terms and will
7 not adversely affect the exclusion from gross income for federal income tax purposes of interest
8 on the Parity Bonds.

9 (4) If Registered Owners of not less than the percentage of Parity Bonds
10 required by this subsection (c) shall have consented to and approved the execution and delivery
11 thereof as herein provided, no owner of the Parity Bonds shall have any right to object to the
12 passage of such supplemental ordinance, or to object to any of the terms and provisions
13 contained therein or the operation thereof, or in any manner to question the propriety of the
14 passage thereof, or to enjoin or restrain the City or the Bond Registrar from passing the same or
15 from taking any action pursuant to the provisions thereof.

16 (d) Upon the execution and delivery of any supplemental ordinance pursuant to the
17 provisions of this Section, this ordinance shall be, and be deemed to be, modified and amended
18 in accordance therewith, and the respective rights, duties and obligations under this ordinance of
19 the City, the Bond Registrar and all owners of Parity Bonds, shall thereafter be determined,
20 exercised and enforced under this ordinance subject in all respects to such modifications and
21 amendments.

22 **Section 28. Defaults and Remedies.**

23 **(a) Events of Default.** The following shall constitute “Events of Default”
24 with respect to the Bonds:

25 (1) If a default is made in the payment of the principal of or interest on
26 any of the Bonds when the same shall become due and payable; or
27
28

1 (2) If the City defaults in the observance and performance of any other
2 of the covenants, conditions and agreements on the part of the City set forth in this ordinance or
3 any covenants, conditions or agreements on the part of the City contained in any Parity Bond
4 Authorizing Ordinance and such default or defaults have continued for a period of six months
5 after the City has received from the Bond Owners' Trustee (as defined below) or from the
6 Registered Owners of not less than twenty-five percent (25%) in principal amount of the Parity
7 Bonds, a written notice specifying and demanding the cure of such default. However, if the
8 default in the observance and performance of any other of the covenants, conditions and
9 agreements is one which cannot be completely remedied within the six (6) months after written
10 notice has been given, it shall not be an Event of Default with respect to the Bonds as long as the
11 City has taken active steps within the six (6) months after written notice has been given to
12 remedy the default and is diligently pursuing such remedy.

13 (3) If the City files a petition in bankruptcy or is placed in receivership
14 under any state or federal bankruptcy or insolvency law.

15 (b) **Bond Owners' Trustee.** So long as such Event of Default has not been
16 remedied, a trustee (the "Bond Owners' Trustee") may be appointed by the Registered Owners
17 of twenty-five percent (25%) in principal amount of the Parity Bonds, by an instrument or
18 concurrent instruments in writing signed and acknowledged by such Registered Owners of the
19 Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Bond Owners'
20 Trustee, notification thereof being given to the City. That appointment shall become effective
21 immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee
22 appointed under the provisions of this subsection (b) shall be a bank or trust company organized
23 under the laws of the State of Washington or the State of New York or a national banking
24 association. The bank or trust company acting as Bond Owners' Trustee may be removed at any
25 time, and a successor Bond Owners' Trustee may be appointed, by the Registered Owners of a
26 majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in
27 writing signed and acknowledged by such Registered Owners of the Bonds or by their attorneys-

1 in-fact duly authorized. The Bond Owners' Trustee may require such security and indemnity as
2 may be reasonable against the costs, expenses and liabilities that may be incurred in the
3 performance of its duties.

4 In the event that any Event of Default in the sole judgment of the Bond Owners' Trustee
5 is cured and the Bond Owners' Trustee furnishes to the City a certificate so stating, that Event of
6 Default shall be conclusively deemed to be cured and the City, the Bond Owners' Trustee and
7 the Registered Owners of the Parity Bonds shall be restored to the same rights and position
8 which they would have held if no Event of Default had occurred.

9 The Bond Owners' Trustee appointed in the manner herein provided, and each successor
10 thereto, is declared to be a trustee for the Registered Owners of all the Parity Bonds and is
11 empowered to exercise all the rights and powers herein conferred on the Bond Owners' Trustee.

12 (c) **Suits at Law or in Equity.** Upon the happening of an Event of Default
13 and during the continuance thereof, the Bond Owners' Trustee may, and upon the written request
14 of the Registered Owners of not less than twenty-five percent (25%) in principal amount of the
15 Parity Bonds outstanding shall, take such steps and institute such suits, actions or other
16 proceedings, all as it may deem appropriate for the protection and enforcement of the rights of
17 the Registered Owners of the Parity Bonds, to collect any amounts due and owing to or from the
18 City, or to obtain other appropriate relief, and may enforce the specific performance of any
19 covenant, agreement or condition contained in this ordinance or in any of the Parity Bonds.

20 Nothing contained in this Section shall, in any event or under any circumstance, be
21 deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the
22 remedy of acceleration is expressly denied to the Registered Owners of the Parity Bonds under
23 any circumstances including, without limitation, upon the occurrence and continuance of an
24 Event of Default.

25 Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder
26 shall be brought in its name as trustee for the Bond owners and all such rights of action upon or
27 under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Bond
28

1 Owners' Trustee without the possession of any of those Parity Bonds and without the production
2 of the same at any trial or proceedings relative thereto except where otherwise required by law.
3 Any such suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for
4 the ratable benefit of all of the Registered Owners of those Parity Bonds, subject to the
5 provisions of this ordinance. The respective Registered Owners of the Parity Bonds, by taking
6 and holding the same, shall be conclusively deemed irrevocably to appoint the Bond Owners'
7 Trustee the true and lawful trustee of the respective Registered Owners of those Parity Bonds,
8 with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in
9 trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or
10 documents for the receipt of money; and to do all acts with respect thereto that the Registered
11 Owner himself or herself might have done in person. Nothing herein shall be deemed to
12 authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any
13 Registered Owner of the Parity Bonds, any plan of reorganization or adjustment affecting the
14 Parity Bonds or any right of any owner thereof, or to authorize or empower the Bond Owners'
15 Trustee to vote the claims of the Registered Owners thereof in any receivership, insolvency,
16 liquidation, bankruptcy, reorganization or other proceeding to which the City is a party.

17 (d) **Application of Money Collected by Bond Owners' Trustee.** Any
18 money collected by the Bond Owners' Trustee at any time pursuant to this Section shall be
19 applied in the following order of priority:

20 (i) first, to the payment of the charges, expenses,
21 advances and compensation of the Bond Owners' Trustee and the charges,
22 expenses, counsel fees, disbursements and compensation of its agents and
attorneys; and

23 (ii) second, to the payment to the persons entitled
24 thereto of all installments of interest then due on the Parity Bonds in the order of
25 maturity of such installments and, if the amount available shall not be sufficient to
26 pay in full any installment or installments maturing on the same date, then to the
27 payment thereof ratably, according to the amounts due thereon to the persons
entitled thereto, without any discrimination or preference; and

26 (iii) third, to the payment to the persons entitled thereto
27 of the unpaid principal amounts of any Parity Bonds which shall have become due
28 (other than Parity Bonds previously called for redemption for the payment of

1 which money is held pursuant to the provisions hereto), whether at maturity or by
2 proceedings for redemption or otherwise, in the order of their due dates and, if the
3 amount available shall not be sufficient to pay in full the principal amounts due
4 on the same date, then to the payment thereof ratably, according to the principal
5 amounts due thereon to the persons entitled thereto, without any discrimination or
6 preference.

7 (e) **Duties and Obligations of Bond Owners' Trustee.** The Bond Owners'
8 Trustee shall not be liable except for the performance of such duties as are specifically set forth
9 herein. During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights
10 and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as
11 a prudent person would exercise or use under the circumstances in the conduct of his or her own
12 affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act
13 hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure
14 to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee
15 shall be determined solely by the express provisions of this ordinance, and no implied powers,
16 duties or obligations of the Bond Owners' Trustee shall be read into this ordinance.

17 The Bond Owners' Trustee shall not be required to expend or risk its own funds or
18 otherwise incur individual liability in the performance of any of its duties or in the exercise of
19 any of its rights or powers as the Bond Owners' Trustee, except as may result from its own
20 negligent action, its own negligent failure to act or its own willful misconduct.

21 The Bond Owners' Trustee shall not be bound to recognize any person as a Registered
22 Owner of any Bond until his title thereto, if disputed, has been established to its reasonable
23 satisfaction.

24 The Bond Owners' Trustee may consult with counsel and the opinion of such counsel
25 shall be full and complete authorization and protection in respect of any action taken or suffered
26 by it hereunder in good faith and in accordance with the opinion of such counsel. The Bond
27 Owners' Trustee shall not be answerable for any neglect or default of any person, firm or
28 corporation employed and selected-by it with reasonable care.

1 (f) **Suits by Individual Bond Owners Restricted.** No owner of any one or
2 more of Parity Bonds shall have any right to institute any action, suit or proceeding at law or in
3 equity for the enforcement of same unless:

- 4 (i) an Event of Default has happened and is continuing;
5 (ii) a Bond Owners' Trustee has been appointed;
6 (iii) such owner previously shall have given to the Bond
7 Owners' Trustee written notice of the Event of Default on account of which such
8 suit, action or proceeding is to be instituted;
9 (iv) the Registered Owners of twenty-five percent
10 (25%) in principal amount of the Parity Bonds, after the occurrence of such Event
11 of Default, has made written request of the Bond Owners' Trustee and have
12 afforded the Bond Owners' Trustee a reasonable opportunity to institute such suit,
13 action or proceeding;
14 (v) there have been offered to the Bond Owners'
15 Trustee security and indemnity satisfactory to it against the costs, expenses and
16 liabilities to be incurred therein or thereby; and
17 (vi) the Bond Owners' Trustee has refused or neglected
18 to comply with such request within a reasonable time.

19 No owner of any Parity Bond shall have any right in any manner whatever by his action
20 to affect or impair the obligation of the City to pay from the Net Revenue the principal of and
21 interest on such Parity Bonds to the respective Registered Owners thereof when due.

22 (g) **Failure to Comply With Undertaking.** Notwithstanding anything in this
23 Section to the contrary, the failure of the City or any obligated person to comply with the
24 Undertaking adopted by the Bond Resolution pursuant to Section 25 shall not constitute an Event
25 of Default hereunder, and the sole remedy of any holder of a Bond shall be to seek an order of
26 specific performance from an appropriate court to compel the City to comply with the
27 Undertaking.

28 **Section 29. Execution of Refunding Plan.**

 (a) **Appointment of Refunding Trustee.** The Refunding Trustee shall be
designated by the Director of Finance and confirmed by the Bond Resolution.

1 **(b) Use of Bond Proceeds; Acquisition and Substitution of Acquired**

2 **Obligations**. If the Bonds of a series include Bonds to carry out the Refunding Plan, sufficient
3 proceeds of the sale of the Bonds shall be deposited immediately upon the receipt thereof with
4 the Refunding Trustee and used to pay the amounts required to be paid by the Refunding Plan in
5 order to discharge the obligations of the City relating to the Refunded Bonds. The Refunding
6 Plan shall be carried out, and proceeds of the Bonds allocable to refunding purposes shall be
7 applied in accordance with this ordinance, the Refunded Bond Ordinance, the Bond Resolution
8 and the laws of the State. To the extent practicable, such obligations shall be discharged fully by
9 the Refunding Trustee's simultaneous purchase of the Acquired Obligations, bearing such
10 interest and maturing as to principal and interest in such amounts and at such times so as to
11 provide, together with a beginning cash balance, if necessary, for the payment of the amount
12 required to be paid by the Refunding Plan. The Acquired Obligations shall be listed and more
13 particularly described in a schedule attached to the Refunding Trust Agreement, and shall be
14 subject to substitution as set forth therein. Any surplus money resulting from the sale, transfer,
15 other disposition or redemption of the Acquired Obligations and the substitutions therefor shall
16 be released from the trust estate and transferred to the Water Fund to be used for any lawful
17 purpose.

18 **(c) Administration of Refunding Plan**. The Refunding Trustee is authorized
19 and directed to purchase the Acquired Obligations (or substitute obligations) and to make the
20 payments required to be made by the Refunding Plan from the Acquired Obligations (or
21 substitute obligations) and money deposited with the Refunding Trustee pursuant to this
22 ordinance. All Acquired Obligations (or substitute obligations) and the money deposited with
23 the Refunding Trustee and any income therefrom shall be held irrevocably, invested and applied
24 in accordance with the provisions of the Refunded Bond Ordinance, this ordinance, the Bond
25 Resolution, chapter 39.53 RCW and other applicable statutes of the State of Washington and the
26 Refunding Trust Agreement. All necessary and proper fees, compensation and expenses of the
27 Refunding Trustee and all other costs incidental to the setting up of the escrow to accomplish the

1 refunding of the Refunded Bonds and costs related to the issuance and delivery of the Bonds,
2 including bond printing, verification fees, Bond Counsel's fees and other related expenses, shall
3 be paid out of the proceeds of the Bonds.

4 **(d) Authorization for Refunding Trust Agreement.** To carry out the
5 Refunding Plan provided for by this ordinance, the Director of Finance is authorized and
6 directed to execute and deliver to the Refunding Trustee, in connection with each series of
7 Bonds, a Refunding Trust Agreement in a form that is consistent with this ordinance and
8 approved by the Resolution and that assures that the escrow provided therein and the Bonds are
9 in compliance with the requirements of federal law governing the exclusion of interest on the
10 Bonds from gross income for federal income tax purposes.

11 **Section 30. Call for Redemption of the Refunded Bonds.** As a part of the Refunding
12 Plan, the City calls the Refunded Bonds for redemption on the dates and at the prices set forth in
13 the Bond Resolution. Such call for redemption of the Refunded Bonds shall be irrevocable after
14 the delivery to the initial purchaser thereof of the applicable series of Bonds. The dates on which
15 the Refunded Bonds are called for redemption shall be the earliest dates on which those bonds
16 may be called for redemption.

17 The proper officials of the City are authorized and directed to give or cause to be given
18 such notices as required, at the times and in the manner required pursuant to the applicable
19 Refunded Bond Legislation in order to effect the redemption prior to maturity of the Refunded
20 Bonds.

21 **Section 31. City Finding with Respect to Refunding.** The Refunding Plan or any
22 portion thereof shall be carried out only if the City finds and determines by the Bond Resolution
23 that the issuance and sale of Bonds will effect savings to the City and its ratepayers and/or
24 otherwise will be in the best interest of the City and in the public interest. In making such
25 findings and determinations, the City shall give consideration to the fixed maturities and
26 scheduled redemptions of the Bonds, the costs of issuance of the Bonds and the known earned
27 income from the investment of the proceeds of the issuance and sale of the Bonds and other

1 money, if any, of the City used in the Refunding Plan pending payment and redemption of the
2 Refunded Bonds.

3 The Refunding Plan or any portion thereof shall be carried out only if the City further
4 finds and determines that the money to be deposited with the Refunding Trustee for the
5 Refunded Bonds in accordance with this ordinance and the Bond Resolution will discharge and
6 satisfy the obligations of the City with respect to the Refunded Bonds under the applicable
7 Refunded Bond Legislation, and the pledges, charges, trusts, covenants and agreements of the
8 City therein made or provided for as to the Refunded Bonds, and that the Refunded Bonds shall
9 no longer be deemed to be outstanding under such legislation immediately upon the deposit of
10 such money with the Refunding Trustee.

11 **Section 32. Sale of Bonds.** The Director of Finance may provide for the sale of the
12 Bonds by public or negotiated sale with the underwriters chosen through a selection process
13 determined by the Director of Finance. The terms of that sale shall be consistent with this
14 ordinance and confirmed by the Bond Resolution.

15 CUSIP numbers will be printed on the Bonds, but neither failure to print CUSIP numbers
16 on any Bond nor error with respect thereto shall constitute cause for a failure or refusal by the
17 Purchasers to accept delivery of and pay for the Bonds in accordance with the purchase offer.
18 All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the
19 City, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the
20 responsibility of and shall be paid by the purchasers.

21 The City will cause the Bonds to be typed, photocopied, printed or lithographed, sealed
22 and executed and will furnish the approving legal opinion of Bond Counsel, the opinion also
23 being printed on each Bond unless the Bond is typed or photocopied.

24 **Section 33. General Authorization.** The Mayor and the Director of Finance of the City
25 and each of the other appropriate officers of the City are each authorized and directed to do
26 everything as in their judgment may be necessary, appropriate or desirable in order to carry out
27 the terms and provisions of, and complete the transactions contemplated by, this ordinance. In
28

1 particular, and without limitation, the Director of Finance may, in his or her discretion and
2 without further action by the City Council, (i) deem final any preliminary official statement or
3 official statement relating to the Bonds, (ii) comply with any continuing disclosure requirements
4 applicable to the Bonds and (iii) change the Bond Registrar or any securities depository
5 appointed for the Bonds.

6 **Section 34. Severability.** The provisions of this ordinance are declared to be separate
7 and severable. If a court of competent jurisdiction, all appeals having been exhausted or all
8 appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as
9 to any person or circumstance, such offending provision shall, if feasible, be deemed to be
10 modified to be within the limits of enforceability or validity. However, if the offending
11 provision cannot be so modified, it shall be null and void with respect to the particular person or
12 circumstance, and all other provisions of this ordinance in all other respects, and the offending
13 provision with respect to all other persons and all other circumstances, shall remain valid and
14 enforceable.

15 **Section 35. Ratification of Prior Acts.** Any action taken consistent with the authority
16 but prior to the effective date of this ordinance, including, if applicable, but not limited to giving
17 notices of the sale of Bonds, adopting the Bond Resolution, executing contracts, making fund
18 transfers and paying warrants, is ratified, approved and confirmed.

19 **Section 36. Section Headings.** The Section headings in this ordinance are used for
20 convenience only and shall not constitute a substantive portion of this ordinance.

21 **Section 37. Effective Date.** This ordinance shall take effect and be in force thirty (30)
22 days from and after its approval by the Mayor, but if not approved by the Mayor and returned by
23 the Mayor within ten (10) days after presentation, it shall take effect as provided by Municipal
24 Code Section 1.04.020.

25 Passed by the City Council the ____ day of _____, 2004, and signed by me in
26 open session in authentication of its passage this ____ day of _____, 2004.

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President _____ of the City Council

Approved by me this ____ day of _____, 2004.

Gregory J. Nickels, Mayor

Filed by me this ____ day of _____, 2004.

City Clerk

(SEAL)

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APPENDIX B

FORM OF BOND COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

The City of Seattle, Washington

Re: The City of Seattle, Washington, \$84,750,000
 Water System Revenue Bonds, 2004

We have served as bond counsel to The City of Seattle, Washington (the "City"), in connection with the issuance of the above-referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion and of which attorneys within the firm involved with the issuance of the Bonds have no independent knowledge, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 121587 and Resolution 30710 of the City (collectively, the "Bond Legislation") to provide the funds to pay part of the cost of carrying out a plan of additions and betterments to and extensions of the Municipal Water System, to satisfy the Reserve Requirement, and to pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the capitalized terms used and not otherwise defined herein.

The Bonds are special limited obligations of the City payable solely out of the Water Revenue Bond Account (the "Bond Account"), into which account the City irrevocably has bound itself to pay all ULID Assessments upon their collection (except for ULID Assessments deposited in a construction account) and certain fixed amounts out of the Net Revenue of the Municipal Water System, without regard to any fixed proportion, namely, amounts sufficient to pay the principal of and interest on the Parity Bonds as they respectively become due and to satisfy the Reserve Requirement, all at the times and in the manner set forth in the Bond Legislation.

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 SEATTLE
 Washington
 98101-3299

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 Website
 WWW.FOSTER.COM

ANCHORAGE
 Alaska

PORTLAND
 Oregon

SEATTLE
 Washington

SPOKANE
 Washington

The City of Seattle, Washington
[Date]

The Net Revenue of the Municipal Water System and all money and investments in the Bond Account (including the Reserve Subaccount therein), the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) have been pledged to the payment of the Parity Bonds and to make payments into the Bond Account required by the Bond Ordinance and Parity Bond Authorizing Ordinances, and this pledge constitutes a lien and charge upon the Net Revenue on a parity of lien and charge with the Outstanding Parity Bonds and any Future Parity Bonds and prior and superior to any other charges whatsoever.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The City has duly authorized and approved the Bond Legislation, and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid obligations of the City payable solely out of the Net Revenue of the Municipal Water System and money in the Bond Account (including the Reserve Subaccount therein), the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;

The City of Seattle, Washington
[Date]

4. The Bonds are not general obligations of the City; and

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

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APPENDIX C

2003 AUDITED FINANCIAL STATEMENTS OF THE WATER SYSTEM

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***Seattle Public Utilities—
Water Fund***
(An Enterprise Fund of the City of Seattle)

*Financial Statements and Additional Information
for the Years Ended December 31, 2003 and 2002,
and Independent Auditors' Report*

SEATTLE PUBLIC UTILITIES—WATER FUND

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INDEPENDENT AUDITORS' REPORT

Director
Seattle Public Utilities—Water Fund
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities—Water Fund (the “Fund”) as of December 31, 2003 and 2002, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management’s discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

April 2, 2004

SEATTLE PUBLIC UTILITIES—WATER FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2003

The financial statements contained in this report document the financial performance of the Water Fund of Seattle Public Utilities. The revenues, expenses, assets, and liabilities of Seattle's water system are recorded in the Water Fund. The financial situation of other aspects of Seattle city government, including other utility services and general government operations, are reported elsewhere.

This section of the report summarizes the financial situation of the Water Fund, especially with respect to changes since 2002.

SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The following statements of revenues, expenses, and changes in net assets present the annual surplus or deficiency of revenues over expenses (the change in net assets):

	2003	2002
Operating revenues	\$ 129,561,327	\$ 118,160,130
Operating expenses	<u>97,957,673</u>	<u>90,862,948</u>
Net operating income	31,603,654	27,297,182
Other expenses	(26,252,056)	(24,257,765)
Loss on Tacoma Project		(6,636,051)
Gain on sale of land rights and timber	6,752,570	
Capital and operating fees, contributions, and grants	<u>4,748,711</u>	<u>6,167,043</u>
Change in net assets	<u>\$ 16,852,879</u>	<u>\$ 2,570,409</u>

In 2003, the water system experienced net income of \$16.9 million. Net income in 2003 was substantially higher than in 2002, due primarily to one-time events. In 2002, net income was reduced by an extraordinary loss of \$6.6 million recorded on a water supply project known as the Tacoma Project. This supply project was a partnership with the City of Tacoma and several other utilities to expand the supply system of Tacoma and build a pipeline to deliver a portion of the expanded supply to the City of Seattle. Over the last decade, the City of Seattle has paid approximately \$6.6 million of preliminary project costs. The City of Seattle will no longer participate in the project, so this \$6.6 million was written off as an expense in 2002. Water demand in 2002 of 137 MGD (millions of gallons of water per day) and 2003 water demand of 140 MGD, respectively, are far less than the 171 MGD firm yield of the supply system, so participation in the Tacoma Project is not necessary to assure water supply in the near term. In 2003, net income included \$6.7 million associated with a power transmission right-of-way easement purchased by the Bonneville Power Administration (the "BPA"). The BPA bought this easement in order to construct an electric power transmission line (Schultz-Echo Lake Transmission Line Project) through the Cedar River Watershed, which is owned by the City. Payments received from the BPA are required to be used by the City to provide increased funding for certain programs and projects in the Cedar River Watershed.

Operating revenues were \$11.4 million higher in 2003 than 2002. These additional revenues were generated from a combination of rate increases effective September 16, 2002, and higher-than-expected summer demand related to especially warm and dry weather. Total operating expenses were \$7.1 million higher in 2003 than 2002, of which \$3.0 million was increased depreciation and amortization expenses resulting from capital investments and \$1.8 million was due to increased revenue tax payments. A further \$2.4 million increase in operating expense was due to a change in methodology for estimating future claims liability.

Other expenses increased by \$1.7 million in interest and amortization of long-term debt. Interest expense is expected to continue to increase, reflecting substantial debt financing of the capital program. Miscellaneous revenues and interest earnings are expected to vary from year to year.

SUMMARY BALANCE SHEETS

The following summary balance sheets present the assets of the water system and show the mix of liabilities and net assets used to acquire these assets:

	2003	2002
Assets:		
Current assets	\$ 30,006,838	\$ 28,621,081
Noncurrent assets:		
Utility plant—net	931,598,987	867,532,552
Other	<u>94,707,938</u>	<u>44,715,191</u>
Total assets	1,056,313,763	940,868,824
Liabilities:		
Current liabilities	50,997,356	46,052,101
Noncurrent liabilities:		
Long-term debt	709,291,512	622,766,292
Other	<u>15,524,642</u>	<u>8,403,057</u>
Total liabilities	<u>775,813,510</u>	<u>677,221,450</u>
Net assets:		
Invested in capital—net of related debt	270,619,671	257,367,714
Restricted	12,987,712	4,784,991
Unrestricted	<u>(3,107,130)</u>	<u>1,494,669</u>
Total net assets	<u>\$ 280,500,253</u>	<u>\$ 263,647,374</u>

Assets—Current assets increased by about \$1.4 million, which represents an increase of \$1.9 million in cash offset by small decreases in accounts receivable. Accounts receivable are generally expected to increase as rates increase. As there was no change in the rates charged between year-end 2002 and year-end 2003, the decrease in accounts receivable represents normal variation in these balances.

The \$50.0 million increase in other assets includes \$32.6 million in higher 2003 year-end construction fund cash balances, \$5.5 million in deferred charges which include conservation cost and other costs, \$5.4 million in the Rate Stabilization Fund, and \$6.7 million in revenues associated with the Bonneville easement which are restricted for certain mitigation activities. Construction fund cash balances vary from year to year depending upon the amount of new debt issued and the level of debt-funded capital investment. Beginning in 2003, the Water Fund is deferring a portion of current revenues in the Rate

Stabilization Fund to buffer financial performance when adverse supply or demand conditions reduce water sales. Significant capital spending of \$93.6 million increased net utility plant (including work in progress) by \$64 million. Of this, \$36.5 million was construction of a new treatment plant on the Cedar River source of supply that is expected to be complete in 2004. The remaining \$57.1 million in capital acquisitions include pipeline, conservation, and distribution system improvements, including \$8.2 million in projects related to the Cedar River Habitat Conservation Plan. Large capital investments are expected to continue in the mid-term. Over the next five years, the adopted capital improvement program totals \$468.8 million, and includes \$2.1 million to complete the treatment plant on the Cedar River, \$18.9 million for investments related to the Cedar River Habitat Conservation Plan, and \$117.7 million to bury above-ground reservoirs.

Liabilities—Current liabilities increased by about \$4.9 million, of which \$4.4 million is related to interest and principal on debt. This increase in debt service payments reflects ongoing debt financing of a substantial capital program. A decrease in accounts payable of \$1.3 million was offset by a deferral of \$1.4 million in wholesale revenues associated with claims.

Long-Term Debt—In 2003, \$271.3 million in revenue bonds was issued to finance the water system capital program and refinance the \$175.8 million in outstanding 1993 revenue bonds. The 2003 bond issue was insured and rated AAA by Moody's and AAA by Standard & Poor's. The water system's underlying bond rating continues to be Aa2 and AA respectively, with a stable outlook. This bond issue, net of the bonds retired in 2003, is responsible for the \$86.5 million increase in the water system's long-term debt liability. The water system expects to continue to finance a large portion of its capital program with revenue bonds in the near term.

SEATTLE PUBLIC UTILITIES—WATER FUND

BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and equity in pooled investments	\$ 5,876,299	\$ 3,990,918
Accounts receivable, net of allowances for doubtful accounts of \$595,450 and \$148,268	9,344,760	10,528,750
Unbilled revenues	6,883,190	7,076,983
Current portion of notes and contracts receivable	147,314	91,618
Due from other City funds	1,769,961	724,880
Due from other governments	1,200,377	1,366,745
Materials and supplies inventory	4,771,476	4,827,185
Prepayments and other	13,461	14,002
	<u>30,006,838</u>	<u>28,621,081</u>
RESTRICTED ASSETS:		
Bond Parity Account—cash and equity in pooled investments	3,112,350	3,052,300
Construction Fund:		
Cash and equity in pooled investments	27,860,271	19,430,360
Investments	24,193,879	—
Vendor deposits—cash and equity in pooled investments	135,534	676,460
Interest receivable	241,702	—
Rate Stabilization Fund—cash and equity in pooled investments	5,370,953	—
BPA account—cash and equity in pooled investments	6,690,100	—
	<u>67,604,789</u>	<u>23,159,120</u>
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs—net	4,845,746	4,630,763
Notes and contracts receivable	465,324	710,013
Deferred conservation costs—net	16,018,280	13,273,045
Other deferred charges—net	5,773,799	2,942,250
	<u>27,103,149</u>	<u>21,556,071</u>
UTILITY PLANT—At original cost:		
Plant in service—excluding land	1,058,828,931	972,632,068
Less accumulated depreciation	(304,583,401)	(278,491,430)
	<u>754,245,530</u>	<u>694,140,638</u>
Construction in progress	163,422,803	159,569,204
Land and land rights	13,656,142	13,548,198
Nonoperating property—net of accumulated depreciation	274,512	274,512
	<u>931,598,987</u>	<u>867,532,552</u>
TOTAL	<u>\$1,056,313,763</u>	<u>\$940,868,824</u>

See notes to financial statements.

LIABILITIES	2003	2002
CURRENT LIABILITIES:		
Accounts payable	\$ 10,014,131	\$ 11,309,675
Accrued payroll and payroll taxes payable	1,672,121	1,357,254
Compensated absences payable	338,765	481,700
Due to other City funds	2,399,169	2,879,828
Interest payable	11,131,724	7,925,208
Taxes payable	497,287	387,231
Claims payable	1,031,509	645,032
Revenue bonds due within one year	21,600,000	20,363,956
Public works trust loan due within one year	118,217	118,217
Deferred credits and other	<u>2,194,433</u>	<u>584,000</u>
	50,997,356	46,052,101
REVENUE BONDS:		
Revenue bonds—due serially	731,485,000	654,130,000
Less revenue bonds due within one year	(21,600,000)	(20,363,956)
Less bond discount—net	(2,055,048)	(5,379,401)
Plus bond premium—net	13,295,635	561,730
Less deferred charges on advance refunding	<u>(11,834,075)</u>	<u>(6,182,081)</u>
	709,291,512	622,766,292
NONCURRENT AND OTHER LIABILITIES:		
Compensated absences payable—noncurrent	3,074,059	2,678,722
Public works trust loan	1,063,950	1,182,167
Claims payable	3,997,266	1,963,594
Environmental liability	1,300,000	1,225,633
Vendor deposits payable	135,534	676,460
Deferred credits—Rate Stabilization Fund	5,370,953	
Other	<u>582,880</u>	<u>676,481</u>
	<u>15,524,642</u>	<u>8,403,057</u>
Total liabilities	775,813,510	677,221,450
NET ASSETS:		
Invested in capital assets—net of related debt	270,619,671	257,367,714
Restricted	12,987,712	4,784,991
Unrestricted	<u>(3,107,130)</u>	<u>1,494,669</u>
Total net assets	280,500,253	263,647,374
TOTAL	<u><u>\$1,056,313,763</u></u>	<u><u>\$940,868,824</u></u>

SEATTLE PUBLIC UTILITIES—WATER FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Direct service, net of amounts transferred to Rate Stabilization		
Fund of \$5,349,004 and \$-0-	\$ 86,882,561	\$ 80,846,459
Wholesale	41,105,938	35,787,617
Other	<u>1,572,828</u>	<u>1,526,054</u>
Total operating revenues	129,561,327	118,160,130
OPERATING EXPENSES:		
Resource management	7,560,802	8,312,131
Field operations	25,489,519	24,232,845
Engineering services	3,160,008	2,623,295
Customer services	7,991,308	8,075,049
General and administrative	12,068,928	10,652,161
City business and occupation taxes	8,942,200	7,867,504
Other taxes	4,621,600	3,928,747
Depreciation and amortization	<u>28,123,308</u>	<u>25,171,216</u>
Total operating expenses	<u>97,957,673</u>	<u>90,862,948</u>
NET OPERATING INCOME	31,603,654	27,297,182
OTHER INCOME (EXPENSES):		
Investment and interest income	809,417	1,147,940
Interest expense	(25,948,044)	(23,952,159)
Amortization of debt expenses	(956,899)	(1,278,400)
Gain on sale of land rights and timber	6,752,570	
Loss on Tacoma Project		(6,636,051)
Other	<u>(156,530)</u>	<u>(175,146)</u>
Total other expenses—net	(19,499,486)	(30,893,816)
CAPITAL AND OPERATING FEES, CONTRIBUTIONS, AND GRANTS	<u>4,748,711</u>	<u>6,167,043</u>
CHANGE IN NET ASSETS	16,852,879	2,570,409
NET ASSETS:		
Beginning of year	<u>263,647,374</u>	<u>261,076,965</u>
End of year	<u>\$280,500,253</u>	<u>\$263,647,374</u>

See notes to financial statements.

SEATTLE PUBLIC UTILITIES—WATER FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 130,249,390	\$ 116,015,472
Cash paid to suppliers and employees	(47,323,952)	(49,827,243)
Cash paid for taxes	<u>(14,051,616)</u>	<u>(10,994,246)</u>
Net cash provided by operating activities	68,873,822	55,193,983
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Operating grants received	172,822	—
Receipts from sale of land rights and timber	6,752,570	—
Other	<u>(156,530)</u>	<u>(175,147)</u>
Net cash provided by (used in) noncapital and related financing activities	6,768,862	(175,147)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of bonds	282,083,277	64,923,517
Principal payments on revenue bonds	(193,965,000)	(18,360,000)
Debt issuance costs	(1,528,895)	(230,943)
Principal payment on public works trust loan	(118,217)	(118,217)
Acquisition and construction of utility plant and additions to deferred assets	(91,254,726)	(90,409,986)
Interest paid	(29,913,377)	(31,319,372)
Capital fees, contributions, and grants	<u>4,575,889</u>	<u>6,167,043</u>
Net cash used in capital and related financing activities	(30,121,049)	(69,347,958)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(24,435,582)	—
Proceeds from sale of investments		33,578,241
Interest received on investments	<u>809,416</u>	<u>1,147,938</u>
Net cash (used in) provided by investing activities	<u>(23,626,166)</u>	<u>34,726,179</u>
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	21,895,469	20,397,057
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>27,150,038</u>	<u>6,752,981</u>
End of year	<u>\$ 49,045,507</u>	<u>\$ 27,150,038</u>

(Continued)

SEATTLE PUBLIC UTILITIES—WATER FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 31,603,654	\$ 27,297,182
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	28,123,308	25,171,216
Changes in operating assets and liabilities:		
Accounts receivable	1,183,990	(1,941,087)
Unbilled revenues	193,793	(632,050)
Due from other City funds	(1,045,081)	930,312
Due from other governments	166,369	(588,446)
Materials and supplies inventory	55,709	(318,450)
Current portion of notes and contracts receivable	(55,696)	(5,003)
Prepayments and other	541	(2,143)
Notes and contracts receivable	244,689	91,618
Environmental liability	74,367	(74,367)
Vendor deposits payable	(540,926)	(269,115)
Accounts payable	(635,495)	4,824,926
Accrued payroll and payroll taxes payable	314,867	33,714
Compensated absences payable	252,401	(80,380)
Due to other City funds	(480,659)	(16,618)
Claims payable	2,420,149	721,402
Deferred credits—net	5,370,953	
Other liabilities	<u>1,626,889</u>	<u>51,272</u>
Total adjustments	<u>37,270,168</u>	<u>27,896,801</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 68,873,822</u>	<u>\$ 55,193,983</u>
NONCASH TRANSACTIONS—Decrease in fair market value on investments	<u>\$ (75,252)</u>	<u>\$ —</u>
See notes to financial statements.		(Concluded)

SEATTLE PUBLIC UTILITIES—WATER FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2003 AND 2002

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations—The City of Seattle, Seattle Public Utilities—Water Fund (the “Fund”) is a public utility enterprise fund of the City of Seattle (the “City”). On January 1, 1997, the City created Seattle Public Utilities (“SPU”), which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City’s General Fund. Water services provided by the Fund to other City departments and agencies are billed at rates prescribed by City ordinances. Under direction of the Seattle City Council, no charges are made to the City for water services for public fire protection.

The utility billing function is co-managed by both SPU and Seattle City Light (“SCL”). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system, Combined Customer Services System (“CCSS”). In 2003, both SPU and SCL billed and reimbursed each other for these services. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of \$1,124,323 in 2003 and paid \$911,091 for CCSS services. In 2002, SPU and SCL agreed to exchange their services with each other, and as a result, no billing and reimbursement were made. The Fund provided services to SCL with a cost of \$1,033,601 and in return the Fund received services from SCL with a cost of \$994,998 in 2002.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor’s Office, Division of Municipal Corporations and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board on or before November 30, 1989, except when they conflict with the GASB.

Basis of Accounting—The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund’s operations are included on the balance sheets. The operating statements present increases (revenues) and decreases (expenses) in total net assets.

Revenues—The Fund provides water service to wholesale and retail customers and recognizes revenue when such service is provided. Wholesale customers (“Purveyors”) are under contract with the Fund and rates are set based on cost allocation criteria stipulated in the contracts.

Service rates for all customers are authorized by ordinances passed by the Seattle City Council. Billings are made to customers monthly or bimonthly. Revenues for water sold to customers between the last billing date and the end of the year are estimated and accrued in the accompanying financial statements.

Utility Plant—Utility plant is stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of replacements and betterments is capitalized. The Fund’s policy is to capitalize assets with a cost of \$5,000 or more. At the time property is retired and removed from service, the original cost of the property, together with removal cost less salvage value, is charged to the depreciation reserve.

Depreciation—Plant in service is depreciated on the straight-line method, using composite rates based on estimated lives as follows:

Earthen source of supply developments	100 years
Transmission and distribution reservoirs, tanks, and mains	50 to 100 years
Pumps, wells, and treatment facilities	15 to 33 years
Buildings, fixtures, and equipment	3 to 50 years

It is the Fund’s policy to begin recording depreciation in the year following acquisition and to record a full year’s charge in the year of disposition.

Construction in Progress—Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to utility plant. Upon determining that a project will be abandoned, the related costs are charged to expense.

Deferred Conservation Costs—Conservation program costs that result in long-term benefits and reduce or postpone other capital expenditures are deferred and amortized over their expected useful lives of 10 years, commencing when each program is in place. Costs of administering the overall program are expensed as incurred.

Other Deferred Charges—Other deferred charges primarily include the easement and right of way, plans and studies, and environmental related charges. Other deferred charges at December 31, 2003 and 2002, were \$5,773,799 and \$2,942,250, respectively.

Environmental Liability Cleanup Costs—In the ordinary course of conducting its business, the Fund incurs liabilities related to the cleanup of certain environmental contaminants. The Fund’s policy is to recognize the expense associated with the cleanup over those periods in which the costs are recovered through rates.

Rate Stabilization Fund—The Rate Stabilization Fund was established by the City Council to reduce year-to-year variation in rates. Amounts deposited into the Rate Stabilization Fund are excluded from the statement of revenues, expenses, and changes in net assets in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 71, *Accounting for the Effects of Certain Types of Regulations*. The Fund deposited \$5,349,000 into the Rate Stabilization Fund in 2003 and \$-0- in 2002, as directed by Council ordinance. The Rate Stabilization Fund is included in the “Rate Stabilization Account” identified in Water Fund bond covenants. These covenants provide that withdrawals and deposits from the “Rate Stabilization Account” shall augment or reduce adjusted net revenue available for the payment of debt service.

BPA Account—In 2003, the Bonneville Power Administration (“BPA”) purchased an easement in the amount of \$6.0 million from the Water Fund to construct a power transmission line through the Cedar River Watershed. This amount is included in gain on sale of land rights and timber in the statements of revenues, expenses, and changes in net assets. This \$6.0 million, together with \$657,149 in timber sales related to the easement, were deposited into the BPA account and are classified as restricted assets. At December 31, 2003, the cash balance in the BPA account was \$6.7 million. Water Fund bond covenants provide that withdrawals and deposits from a “Rate Stabilization Account” shall augment or reduce adjusted net revenue available for the payment of debt service. Moneys in the BPA account assets are considered a portion of the “Rate Stabilization Account” described in these covenants. The Water Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt services as they are withdrawn to fund certain activities in the Cedar River Watershed.

Timber Sales—The Fund occasionally contracts with outside timber purchasers to harvest timber owned within its watershed and nonoperating properties. Revenue is recognized based on terms of the harvesting contract. The cutting schedules and associated revenues and expenses are primarily determined by market and other factors. Income arising from timber operations may vary significantly from year to year. During 2003, revenue from timber sales were \$859,370, including \$657,149 of timber sales related to the BPA easement/timber sale agreement. No timber sales were made in 2002.

Compensated Absences—Employees earn vacation based on their date of hire and years in service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

Taxes—The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenue, net of certain credits and certain revenues including all wholesale revenues. In addition, the Fund paid a 5.029% public utility tax to the state on a certain portion of revenues. The Fund is also taxed by the state under the business and occupation tax at the rate of 1.5% in 2003 and 2002.

Inventory—The Fund values its inventory based on a moving average method. The most recent total cost of an inventory item is divided by the total units of the item that remain in the inventory to determine the moving average cost of the item. The moving average cost is then applied to all the units of the inventory item.

Net Assets—There are three components of net assets: invested in capital—net of related debt, restricted net assets, and unrestricted net assets. Invested in capital assets includes utility plant and net unamortized bond issuance costs. Restricted net assets as of December 31, 2003, consists of unspent bond proceeds—net of related debt, deferred conservation costs, other deferred charges—net of related debt, the Rate Stabilization Fund—net of the related deferred credit, and the BPA account. Restricted net assets as of December 31, 2002, consists of deferred conservation costs and other deferred charges—net of related debt, and unspent bond proceeds—net of related debt.

Other Revenues and Expenses—This includes the nonoperating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a

recurring nature. Major items are investment and interest income, interest expense, and amortization of debt expenses.

Arbitrage Rebate Requirement—The Fund is subject to the Internal Revenue Service Code, Section 148(f), related to its tax-exempt revenue bonds. The Internal Revenue Service Code requires that earnings on gross proceeds of any revenue bonds, which are in excess of the amount prescribed, will be rebated to the Internal Revenue Service. As such, the Fund would record such rebate as a liability. No liability was recorded December 31, 2002 or 2003.

Accounting Changes—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The requirements of this statement are effective for the Fund's financial statements for periods beginning after June 15, 2004 (January 1, 2005). The Fund is in the process of determining the impact of this standard on the Fund's financial statements.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The Fund is in the process of determining the impact of this standard on the Fund's financial statements.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, accrued sick leave, environmental liabilities, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Reclassifications—Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

2. CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS

The City's Department of Finance invests all temporary cash surpluses for City departments. This department may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market, and repurchase or reverse-repurchase agreements with primary dealers that use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission ("PDPC") collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata

assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

The City considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents. The cash pool operates like a demand deposit account in that all agencies, including the City, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments plus the cash held in escrow for vendors. Securities with maturities exceeding three months at the time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

Capital expenditures are initially funded by the Operating Fund, which is subsequently reimbursed by the Construction Fund.

Investments are reported at fair value based on quoted market prices for those or similar securities and are as follows at December 31, 2003:

U.S. government securities	<u>\$ 24,193,879</u>
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There were no investments as of December 31, 2002.

3. NOTES AND CONTRACTS RECEIVABLE

Other receivables are composed of the following as of December 31:

	2003	2002
Water main assessments	\$ 296,458	\$ 357,378
Land sales receivable	151,510	233,839
Richmond Beach surcharge	<u>164,670</u>	<u>210,414</u>
	612,638	801,631
Less current portion	<u>(147,314)</u>	<u>(91,618)</u>
Total other receivables, net of current portion	<u>\$ 465,324</u>	<u>\$ 710,013</u>

4. UTILITY PLANT

Utility plant consists of the following as of December 31:

	2002	Additions and Transfers In	Retirements and Transfers Out	2003
Equipment	\$ 784,447,762	\$ 59,551,407	\$ —	\$ 843,999,169
Buildings, fixtures, and grounds	135,150,251	24,531,983		159,682,234
Computer applications, surveys, and other	<u>53,034,055</u>	<u>2,113,473</u>		<u>55,147,528</u>
Total plant in service—excluding land	972,632,068	86,196,863		1,058,828,931
Less accumulated depreciation	<u>(278,491,430)</u>	<u>(26,091,971)</u>		<u>(304,583,401)</u>
	694,140,638	60,104,892		754,245,530
Construction in progress	159,569,204	100,826,147	(96,972,548)	163,422,803
Land and land rights	13,548,198	107,944		13,656,142
Nonoperating property—net of accumulated depreciation	<u>274,512</u>			<u>274,512</u>
Utility plant—net	<u>\$ 867,532,552</u>	<u>\$ 161,038,983</u>	<u>\$ (96,972,548)</u>	<u>\$ 931,598,987</u>

During 2003 and 2002, the Fund capitalized interest costs relating to construction of \$7,171,850 and \$7,213,226, respectively.

5. REVENUE BONDS

At December 31, revenue bonds consist of the following:

	2003			2002		
	Long-Term	Short-Term	Total	Long-Term	Short-Term	Total
2003 Water System Revenue Bonds, 4.625% to 6.00%, due through 2033, insured by a third-party insurer	\$ 244,160,000	\$ 12,660,000	\$ 256,820,000	\$ —	\$ —	\$ —
2002 A&B Water System Revenue Bonds, rates averaging 1.02% in 2003, due through 2032, insured by a third-party insurer	62,600,000	1,200,000	63,800,000	63,841,044	1,158,956	65,000,000
2001 Water System Revenue Bonds, 4.50% to 5.00%, due through 2031, insured by a third- party insurer	52,525,000		52,525,000	52,525,000		52,525,000
1999B Water System Revenue Bonds, 5.00% to 6.00%, due through 2029, insured by a third- party insurer	102,640,000	1,960,000	104,600,000	104,600,000	1,875,000	106,475,000
1999A Water System Revenue Bonds, 4.00% to 5.375%, due through 2029, insured by a third- party insurer	91,480,000	1,840,000	93,320,000	93,320,000	1,765,000	95,085,000
1998 Water System Revenue Bonds, 4.5% to 5.0%, due through 2027, insured by a third- party insurer	71,175,000	1,630,000	72,805,000	72,805,000	1,560,000	74,365,000
1997 Water System Revenue Bonds, 5.375% to 5.625%, due through 2026, insured by a third- party insurer	45,805,000	1,110,000	46,915,000	46,915,000	1,065,000	47,980,000
1995 Water System Revenue Bonds, variable rates averaging 0.92% in 2003, due through 2025, insured by a third-party insurer	39,500,000	1,200,000	40,700,000	40,700,000	1,100,000	41,800,000
1993 Water System Revenue Bonds, 4.7% to 5.5%, due through 2023, insured by a third-party insurer				159,060,000	11,840,000	170,900,000
	<u>\$ 709,885,000</u>	<u>\$ 21,600,000</u>	<u>\$ 731,485,000</u>	<u>\$ 633,766,044</u>	<u>\$ 20,363,956</u>	<u>\$ 654,130,000</u>

In May 2003, the Fund issued \$271,320,000 of Water System Revenue and Refunding Bonds with varying annual principal payments due in 2003 and continuing through 2033, with interest ranging from 4.625% to 6%. A portion of the proceeds from the issuance, in the amount of \$175,834,697, was used to refund the 1993 Water System Bonds. As a result of the refunding, the Fund reduced its total debt service requirements by \$20.6 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$13.8 million. A deferred expense (the difference between the cost to refund outstanding debt and the carrying value of bonds refunded) of \$13,036,017 is being amortized over the lives of the refunded bonds using the effective rate interest method.

The 1995 Water System Revenue Bonds and the 2002 Water System Revenue Bonds are variable rate obligations. The Fund has secured the services of remarketing agents responsible for remarketing the bonds at regular intervals on the open market. The Fund pays actual market interest costs and a fee for remarketing services. The bonds are currently remarketed weekly, though the Fund retains the ability to cause the bonds to be remarketed at other intervals.

Proceeds of the revenue bonds are being used to finance certain capital improvement projects and conservation programs for the Fund.

Future principal and estimated interest payments for revenue bonds are as follows:

Years Ending December 31	Principal	Interest	Total
2004	\$ 21,600,000	\$ 33,069,440	\$ 54,669,440
2005	20,540,000	31,972,974	52,512,974
2006	20,330,000	31,164,927	51,494,927
2007	18,180,000	30,362,561	48,542,561
2008	19,255,000	29,610,313	48,865,313
2009 – 2013	110,305,000	134,940,811	245,245,811
2014 – 2018	139,010,000	108,726,892	247,736,892
2019 – 2023	172,445,000	73,667,479	246,112,479
2024 – 2028	143,420,000	35,274,497	178,694,497
2029 – 2033	<u>66,400,000</u>	<u>8,240,388</u>	<u>74,640,388</u>
	<u>\$ 731,485,000</u>	<u>\$ 517,030,282</u>	<u>\$ 1,248,515,282</u>

Water System Revenue Bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue to provide for debt service coverage on the bonds and a reserve for the payment of annual debt service. The Fund must maintain adjusted net revenue of not less than 125% of actual annual senior lien debt service. Adjusted net revenues remaining after senior lien debt service has been paid must not be less than 125% of annual junior lien debt service. In 2003, adjusted net revenue was 164% of senior lien debt service, and adjusted net revenue available

after senior lien debt service was paid was 902% of junior lien debt service. The Fund has obtained reserve insurance policies to meet its reserve requirements. Net revenues available for debt service for the year ended December 31, 2003, is determined as follows:

Change in net assets	\$ 16,852,879
Add:	
City occupation tax	8,942,200
Depreciation and amortization	28,123,308
Interest on revenue bonds	33,119,893
Amortization of debt expenses and loss	956,900
Claims and damages not paid in 2003	2,420,149
Investment fair value adjustment	<u>578,147</u>
	90,993,476
Less:	
Capitalized interest	7,171,850
Gain on sale of land rights and timber—BPA Account	<u>6,657,149</u>
Adjusted net revenue available for debt service	<u>\$ 77,164,477</u>
Senior debt service requirement (cash basis)	\$ 47,121,632
Senior lien coverage percentage	164 %
Adjusted net revenue available for junior lien debt service	\$ 30,042,845
Junior lien debt service requirement (cash basis)	3,332,565
Junior lien coverage percentage	902%

6. PUBLIC WORKS TRUST LOAN

During 1993, the Fund entered into an agreement to borrow up to \$2,220,000 from the Washington State Department of Community Development under its Public Works Trust Loan Program for the construction of certain capital improvements. Amounts borrowed under the agreement accrue interest at 1% per annum and are to be repaid in 19 equal annual installments, plus interest. As of December 31, 2003 and 2002, the Fund owed \$1,182,167 and \$1,300,384, respectively.

7. ENVIRONMENTAL LIABILITY

The Fund has recorded a \$1,300,000 liability for future environmental cleanup costs related to lead-based paint and arsenic contamination surrounding several standing water tanks as well as expected remediation efforts associated with underground fuel tank replacements. The liability is included in other long-term liabilities on the balance sheet. The total cost is expected to be recovered through rates over an estimated 14-year period.

8. RETIREMENT PLANS

Pension Costs—All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the "System"), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of

service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances.

City employees are required to contribute 8.03% of their annual base salaries to the System. The City's contribution rate was 8.03% as of January 1, 2003 and 2002. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2003, 2002, and 2001, were \$2,752,020, \$2,665,945, and \$2,461,551, respectively. The Fund's contribution in 2003 represents its full liability to the System.

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington, 98104; telephone: (206) 386-1292.

Employer contributions for the City are as follows (dollars in millions):

Year Ended December 31	City Required Contribution	City Actual Contribution	Percentage Contributed
2001	\$ 32.5	\$ 32.5	100 %
2002	35.2	35.2	100
2003	34.2	34.2	100

Actuarial data and assumptions:

Valuation date	January 1, 2002
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	33.7 years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00%
Projected general wage inflation	4.50%
Postretirement benefit increases	0.67%

Schedule of funding progress (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) — Entry Age (b)	(1)	Unfunded AAL (UAAL) (b-a)	(2)	Funded Ratio (a/b)	Covered Payroll (c)	(3)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2000	\$ 1,582.7	\$ 1,403.1		\$ (179.6)		112.8 %	\$ 370.4		(48.5)%
1/1/2001	1,493.1	1,490.3		(2.8)		100.2	383.7		(0.7)
1/1/2002	1,383.7	1,581.4		197.7		87.5	405.1		48.8

- (1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method
(2) Actuarial accrued liabilities less actuarial value of assets
(3) Covered payroll includes compensation paid to all active employees on which contributions

The City now performs an actuarial analysis on a bi-annual basis and expects to perform the next actuarial analysis as of January 1, 2004.

Deferred Compensation—The City offers all of its employees a deferred compensation plan (the “Plan”) created in accordance with Internal Revenue Code (“IRC”) Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death or unforeseen emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City’s legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

9. RISK FINANCING LIABILITIES

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund’s property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2003 and 2002, liabilities for workers’ compensation claims are discounted over a 15-year period at the City’s rate of return on investments, 3.16% and 4.24%, respectively. Claims expected to be paid within one year were \$1,031,509 and \$645,032 at December 31, 2003 and 2002, respectively. The schedule below represents the changes in the liability for workers’ compensation claims and other claims (risk-financing liabilities) as of December 31:

	2003	2002
Beginning liability	\$2,608,626	\$1,887,224
Payments	(1,427,891)	(516,300)
Incurred claims and changes in estimates	<u>3,848,040</u>	<u>1,237,702</u>
Ending liability	<u>\$5,028,775</u>	<u>\$2,608,626</u>

10. COMMITMENTS AND CONTINGENCIES

Seattle Public Utilities has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (“HCP”) is to protect all species of concern that may be affected by the operations of Seattle Public Utilities and City Light in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$90

million (in 2002 dollars) over a period of 50 years. Expenditures are expected to be funded from a combination of operating revenues and debt.

The Fund has negotiated an agreement relating to compliance with the Surface Water Treatment Rule on its Cedar River supply system, which requires it to evaluate ozonation and filtration, and recommend changes to current treatment. A recommendation for ozonation compatible with filtration was provided to the Washington State Department of Health in November 1995, and approved in January 1996. The ozonation facility is under construction and expected to cost approximately \$100 million, of which \$2.1 million is expected to be paid in 2004. The facility is expected to be operational in 2004. Expenditures are expected to be funded from a combination of operating revenues and debt.

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APPENDIX D
BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the “beneficial owners”) should confirm the following with DTC or its participants (the “Participants”).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system, in Authorized Denominations, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be

governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

A Beneficial Owner will give notice to elect to have its Bonds purchased or tendered, through its Participant, the Bond Registrar, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Bond Registrar. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar or the City, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of redemption proceeds, distribution and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Registrar or the City. Under such circumstances and in the event that a successor securities depository is not obtained, new certificates are required to be printed and delivered.

The preceding information concerning DTC and DTC's book-entry system has been obtained from sources the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The following information has been provided by the City.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Neither the City nor the Bond Registrar will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of DTC or its nominee, the City and the Bond Registrar will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede and Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of

or interest on the Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede and Co., in whose name each bond is registered on the Bond Register, as the holder and absolute owner of such bond for the purpose of payment of principal and interest with respect to such bond, for the purpose of giving notices of redemption and other matters with respect to such bond, for the purpose of registering transfers with respect to such bond, and for all other purposes whatsoever.

The City's obligations under the Bond Legislation and the Bonds are to the registered owner or owners of the Bonds, and the City will not be liable to the Participants or beneficial owners of Bonds registered in the name of any nominee of DTC or a successor depository, for any acts or omissions of DTC or such successor depository.

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APPENDIX E
DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

King, Snohomish and Island Counties constitute the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the “Seattle PMSA”), the fourth-largest metropolitan center on the West Coast. The City of Seattle, encompassing 92 square miles, is the largest city in the Pacific Northwest and is the center of King County’s economic activity. Of the State’s population, nearly 30 percent reside in King County, and of the County’s population, 33 percent live in the City.

Population

Historical and current population figures for the State of Washington, the County, the two largest cities in the County, and the unincorporated areas of the County are given below.

POPULATION					
<u>Year</u>	<u>Washington</u>	<u>King County</u>	<u>Seattle</u>	<u>Bellevue</u>	<u>Unincorporated King County</u>
2003 ⁽¹⁾	6,098,300	1,779,300	571,900	116,400	351,843
2002 ⁽¹⁾	6,041,700	1,774,300	570,800	117,000	351,675
2001 ⁽¹⁾	5,974,900	1,758,300	568,100	111,500	353,579
2000 ⁽²⁾	5,894,121	1,737,034	563,374	109,827	349,773
1999 ⁽¹⁾	5,757,400	1,677,000	540,500	106,200	387,148
1990 ⁽²⁾	4,866,692	1,507,319	516,259	86,874	NA
1980 ⁽²⁾	4,130,163	1,269,749	493,846	73,903	503,100

(1) Source: State of Washington, Office of Financial Management (2003 is estimated).

(2) Source: U.S. Department of Commerce, Bureau of Census

Per Capita Income

The following table presents per capita personal income.

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Seattle PMSA	NA*	\$ 41,229	\$ 41,025	\$ 38,811	\$ 35,880	\$ 32,766
King County	NA*	45,965	45,682	43,100	39,335	35,382
State of Washington	\$ 32,661	31,976	31,605	29,807	28,285	26,469

* Not available.

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Construction

The table below lists the value of construction for which building permits have been issued by King County. The value of public construction is not included in this table.

BUILDING PERMIT VALUES

Year	New Single Family Units		New Multi Family Units		Total Value(\$)
	Number	Value(\$)	Number	Value(\$)	
2003*	5,758	1,329,312,143	3,405	296,263,093	1,625,575,236
2002	5,783	1,339,289,055	4,768	429,323,501	1,768,612,556
2001	4,352	939,203,505	5,615	426,811,259	1,366,014,764
2000	4,483	874,743,480	7,243	503,636,591	1,378,380,071
1999	4,634	799,406,622	7,016	489,992,266	1,289,398,888
1998	5,375	931,100,649	8,261	616,637,542	1,547,738,191
1997	5,413	875,479,710	6,271	481,794,889	1,357,274,599

* Through November 2003.

Source: *Building Permit Activity by City and County in the State of Washington, BP Logistics, and U.S. Bureau of the Census*

Retail Activity

The following table presents taxable retail sales in Seattle and King County.

THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES (000)

<u>Year</u>	<u>The City of Seattle</u>	<u>King County</u>
2003*	\$ 9,201,814	\$ 25,664,423
2002	12,676,311	34,791,128
2001	13,024,765	35,772,850
2000	13,625,486	37,383,541
1999	12,728,470	34,517,504

* Through 2003 third quarter only.

Source: *Washington State Department of Revenue*

Industry and Employment

The following two tables provide information regarding the civilian labor force and nonagricultural employment in the Seattle PMSA, the first table for the years 1997 through 2001 and the second table for the years 2001 and 2002. In 2001, the North American Industry Classification system ("NAICS") replaced the Standard Industrial Classification code system used in previous employment tables.

SEATTLE PMSA (KING, SNOHOMISH AND ISLAND COUNTIES) RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	Average Annual ⁽¹⁾				
	2001 ⁽²⁾	2000 ⁽³⁾	1999	1998	1997
Civilian Labor Force					
Employment	1,303,100	1,343,600	1,357,200	1,337,800	1,294,500
Unemployment	71,000	52,000	47,500	42,400	44,700
Total Civilian Labor Force	1,374,100	1,395,600	1,404,800	1,380,200	1,339,200
Unemployment Rate	5.2%	3.7%	3.4%	3.1%	3.3%
Nonagricultural Employment					
Manufacturing					
Aircraft and parts	83,600	82,400	95,100	108,200	101,100
Misc. trans. equipment	6,900	9,100	9,500	9,300	8,800
Food products	14,300	15,200	14,900	16,100	17,000
Wood products and paper	11,900	12,100	12,100	12,500	12,400
Machinery and electrical	21,600	22,100	22,200	21,700	20,700
Instruments	11,500	11,700	11,900	12,100	11,800
Textiles, apparel and leather	4,100	4,400	4,500	4,900	5,100
Printing and publishing	13,600	14,400	13,700	13,800	14,100
Other manufacturing categories	27,900	29,300	30,100	29,700	27,800
Total manufacturing	195,400	200,700	214,000	228,200	218,800
Nonmanufacturing					
Mining and quarrying	1,100	1,100	700	700	700
Contract construction	80,100	84,300	78,400	73,300	66,500
Transp., commun. and utilities	87,100	87,900	84,000	81,000	77,700
Wholesale and retail trade	324,700	335,900	325,000	315,500	304,000
Finance, insurance and real estate	87,400	84,000	84,600	81,500	76,700
Services	429,900	438,000	408,700	390,800	371,400
Government	195,800	190,500	187,000	183,000	178,100
Total nonmanufacturing	1,206,100	1,221,700	1,168,400	1,125,600	1,075,100
Total Nonagricultural Employment	1,401,500	1,422,400	1,382,400	1,353,800	1,293,900

(1) Columns may not add to totals due to rounding.

(2) Preliminary.

(3) Revised.

Source: Washington State Department of Employment Security

**SEATTLE PMSA
(KING, SNOHOMISH AND ISLAND COUNTIES)
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT**

	<u>Annual Average</u>	
	<u>2002⁽²⁾</u>	<u>2001⁽³⁾</u>
Civilian Labor Force		
Employment	1,301,100	1,303,100
Unemployment ⁽⁴⁾	<u>94,800</u>	<u>71,000</u>
Total Civilian Labor Force	1,395,900	1,374,100
Unemployment Rate	6.8%	5.2%
NAICS Industry Title (numbers in thousands)		
Total Nonfarm	1,355.1	1,399.4
Total Private	1,154.5	1,203.1
Goods Producing	244.9	268.5
Natural Resources and Mining	1.6	2.0
Construction	77.9	82.2
Manufacturing	165.4	184.3
Service-Providing	1,110.1	1,131.0
Trade, Transportation and Utilities	264.5	275.4
Information	73.2	77.1
Financial Activities	88.8	89.4
Professional and Business Services	180.2	191.1
Education and Health Services	135.2	132.0
Leisure and Hospitality	119.0	121.6
Other Services	48.7	48.1
Government	200.6	196.4

(1) Columns may not add to totals due to rounding.

(2) Preliminary.

(3) Revised.

(4) Unemployment rate as of December 2003 estimated at 6.8 percent.

Source: Washington State Employment Security Department

The following table presents employment data for major employers in the Puget Sound area, which is defined for the purposes of this section as King, Kitsap, Pierce, and Snohomish Counties, Washington.

**PUGET SOUND AREA
MAJOR EMPLOYERS**

<u>Employer</u>	<u>Employees</u>
The Boeing Company	52,806 ⁽¹⁾
Microsoft	27,657 ⁽²⁾
University of Washington	23,500
King County	14,700
Safeway	12,800
City of Seattle	10,600
Group Health Cooperative	10,000
Sisters of Providence Health	9,600
Weyerhaeuser	8,400
Swedish Health	7,115

(1) State-wide employment as of July 2004. (The Puget Sound area is the location for almost all of the Boeing employment within the State.)

(2) As of June 2004.

Sources: Economic Development Council of Seattle and King County and individual employers, March 2003.

The Boeing Company ("Boeing") had revenues of \$58.2 billion in 2001, \$54.1 billion in 2002 and \$50.5 billion in 2003. Total airplane deliveries in 2003 were 281, compared to 381 in 2002. Boeing's total employment world-wide is 157,054 and it remains the largest employer in the Puget Sound area, with 52,806 employees in the State as of July 1, 2004. In September 2001, Boeing moved its corporate headquarters to Chicago, Illinois. .

Microsoft, which is headquartered in Redmond, is the region's largest high technology employer with more than 56,000 employees worldwide, including 27,657 in the Puget Sound area as of June 30, 2004. Microsoft is a developer and manufacturer of computer operating systems and software. Microsoft's fiscal year 2004 revenues were \$36.8 billion, compared to \$32.2 billion in fiscal year 2003.

Other Issues

A variety of additional issues may have an effect on the Puget Sound area's economy, including but not limited to transportation infrastructure, endangered species listings, the commercial real estate market, and limits on residential development and resulting housing costs. The effects of these issues are interdependent and cannot be quantified.

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APPENDIX F
DEBT SERVICE RESERVE FUND SURETY BOND

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DEBT SERVICE RESERVE FUND SURETY BOND

Application has been made to the MBIA Insurance Corporation (the “Insurer”) for a commitment to issue a surety bond (the “Debt Service Reserve Fund Surety Bond”). The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Bond Registrar to the Insurer to the effect that insufficient amounts are on deposit in the Reserve Subaccount to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, the Insurer will promptly deposit with the Bond Registrar an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Bond Registrar; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Bond Registrar to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Bond Registrar, of amounts which are then due to the Bond Registrar (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Bond Registrar which have not been reimbursed by the City. The City and the Insurer have entered into a Financial Guaranty Agreement dated October 25, 2004 (the “Agreement”). Pursuant to the Agreement, the City is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Bond Registrar under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required deposits to the Water Fund for debt service have been made.

Under the terms of the Agreement, the Bond Registrar is required to reimburse the Insurer, with interest, but only from the Net Revenue of the Water System available to be used therefor consistent with the Parity Bond documents until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated before any deposit is made to the General Fund. No optional redemption of Bonds may be made until the Insurer’s Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond will be held by the Bond Registrar in the Reserve Subaccount and is provided as an alternative to the City depositing funds equal to the Debt Service Requirement for outstanding Bonds. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to 125 percent of the average annual debt service for the Bonds and the premium therefor will be fully paid by the City at the time of delivery of the Bonds.

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APPENDIX G

MUNICIPAL BOND INSURANCE POLICY SPECIMEN

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Insurer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary

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